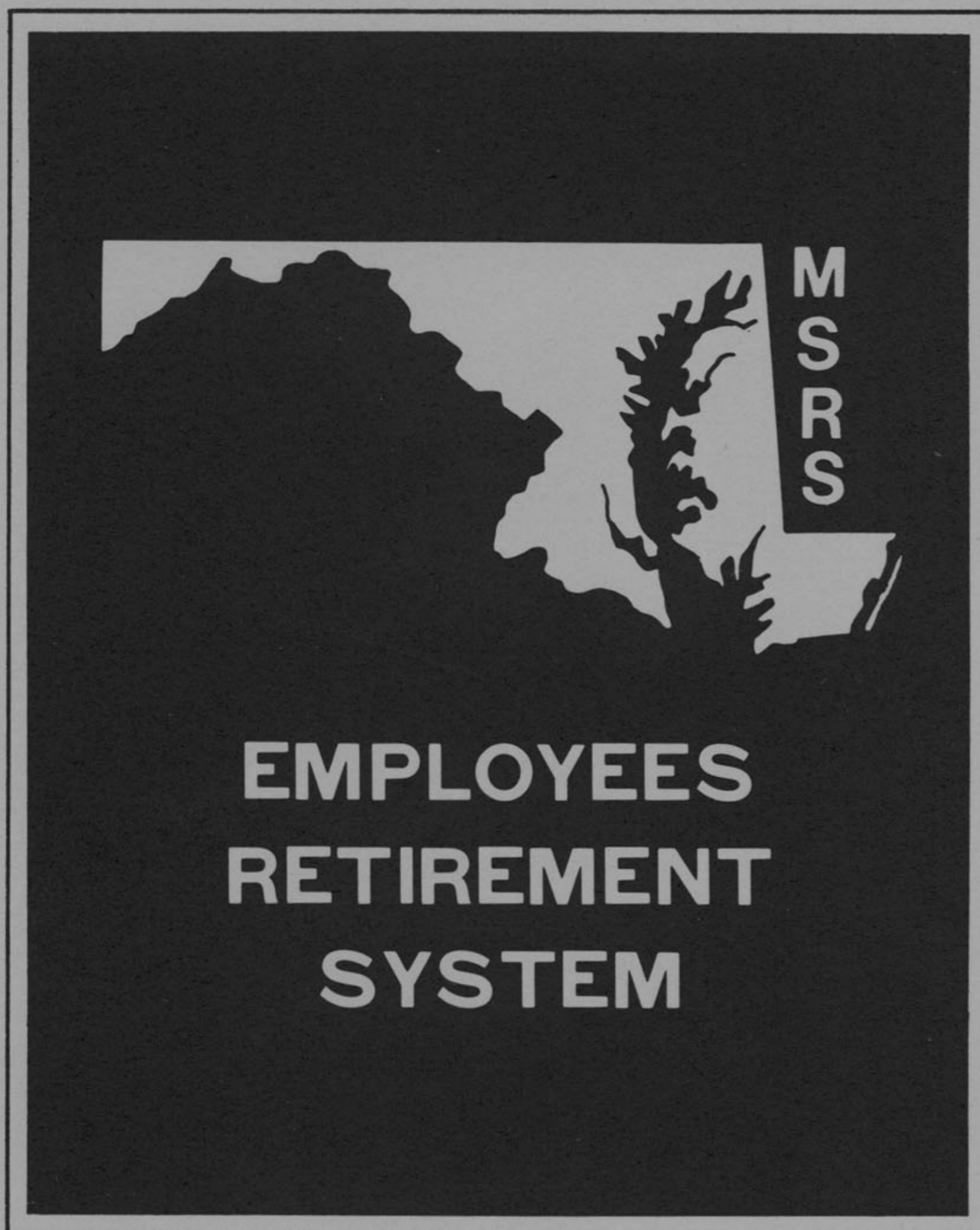
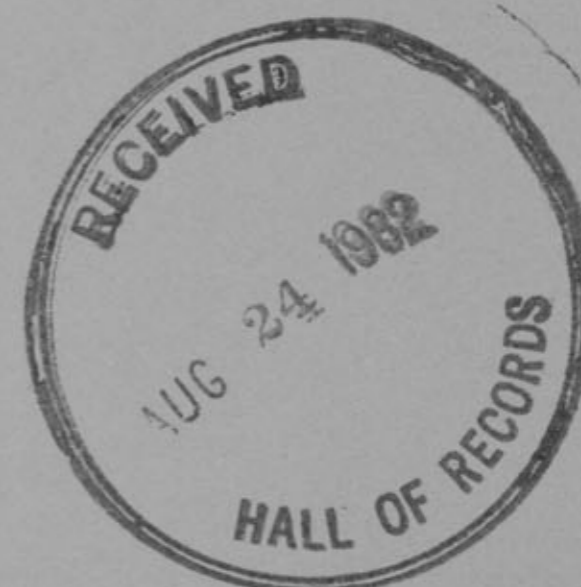


830006



1981 ANNUAL REPORT



EMPLOYEES' RETIREMENT SYSTEM OF THE
STATE OF MARYLAND

Board of Trustees

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George B. Buck, Consulting Actuary

OFFICE OF RETIREMENT SYSTEM

301 West Preston Street

Baltimore, Maryland 21201

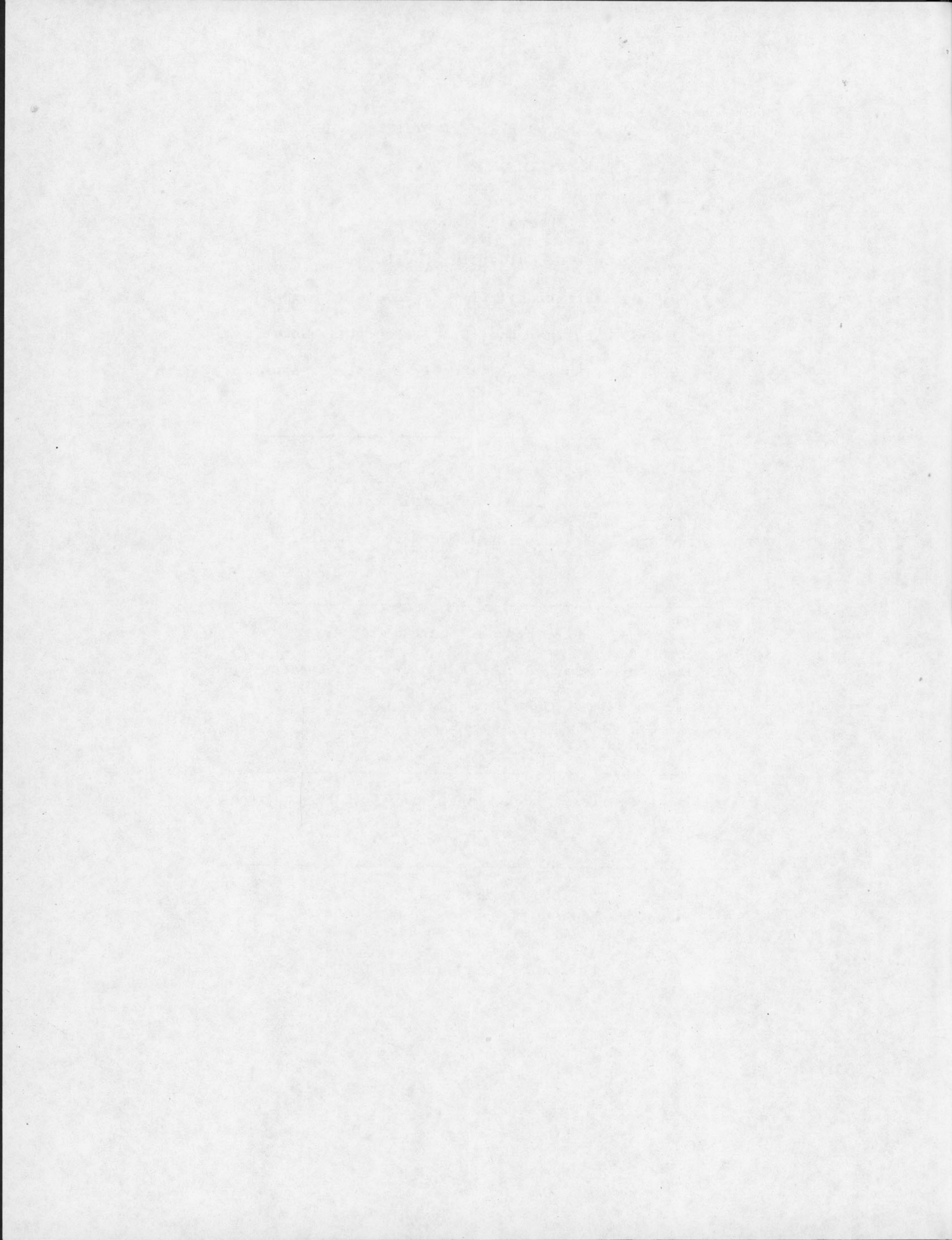


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BOARD OF TRUSTEES

EMPLOYEES' RETIREMENT SYSTEM

OF THE STATE OF MARYLAND

301 W. Preston Street, Baltimore, Maryland 21201

June 1, 1982

The Honorable Harry Hughes
Governor of the State of Maryland
Annapolis, Maryland

Dear Sir:

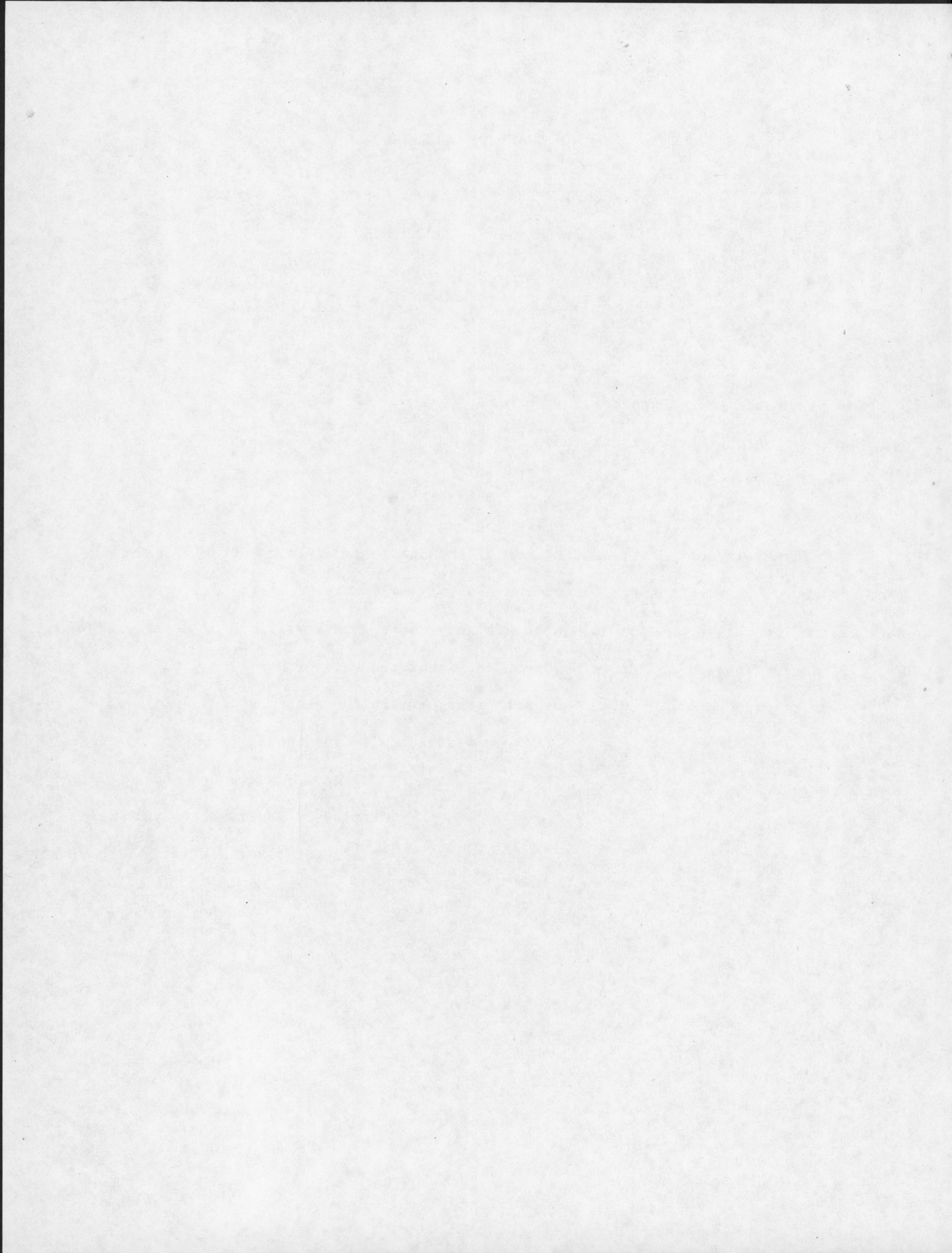
The Employees' Retirement System of the State of Maryland, established in accordance with Chapter 377 of the Laws of 1941, completed its Fortieth year of operation on June 30, 1981. In accordance with provisions of Section 12, Subsection (11) of Article 73B of the Annotated Code of Maryland, The Board has the honor to submit herewith its Fortieth Annual Report.

Respectfully submitted,

Board of Trustees of the
Employees' Retirement System
of the State of Maryland

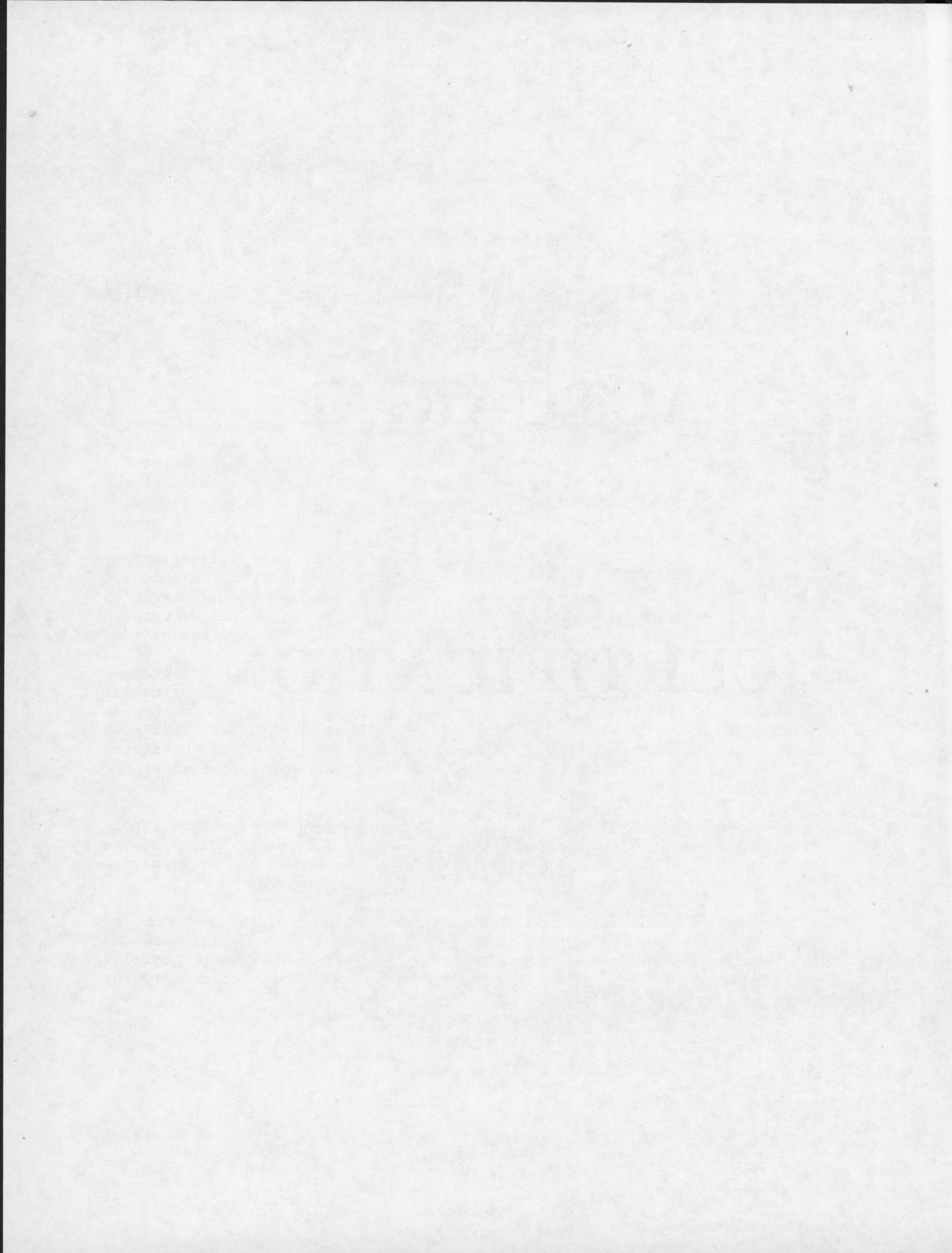
CHRIST G. CHRISTIS

Secretary



ACTUARIAL

CERTIFICATION



March 4, 1982

Board of Trustees
Employees' Retirement System of
the State of Maryland
301 West Preston Street
Baltimore, Maryland 21201

BUCK
CONSULTANTS

Ladies and Gentlemen:

Subsection (17) of Section 12 of the law governing the operation of the Employees' Retirement System of the State of Maryland provides that the actuary shall make an annual valuation of the assets and liabilities of the funds of the system. We have the honor to submit herewith the results of the fortieth valuation as of June 30, 1981 made in accordance with this provision of the law.

A correction to a benefit interpretation concerning the post-retirement increases in allowances was made for this valuation. These allowances are calculated on a compound interest basis, not a simple interest basis as assumed in the last valuation. As directed by the Board at its meeting on July 13, 1981, this correction was recognized in full for this valuation.

The actuarial assumptions are, in the aggregate, reasonable, and represent our best estimate of anticipated experience under the system. The actuarial cost method utilized is the accrued benefit cost method. This cost method is specifically recognized as an acceptable method by the Employee Retirement Income Security Act of 1974. The current assets applicable to the system were supplied by the Retirement System office. They are valued under the five-year moving average of unit market values method.

In our opinion, the Schedule of Valuation Results appended to this report correctly presents the conditions of the Employees' Retirement System of the State of Maryland as to those benefits which are funded on an actuarial reserve basis.

The recommended employer normal contribution rates are 12.51 per cent of payroll for municipalities and 9.90 per cent for the State. The recommended State accrued liability contribution rate is 7.87 per cent of payroll. Separate annual accrued liability contributions have been recommended for payment by the municipalities.

The results of the valuation indicate that the recommended rates of employer contribution together with future contributions by members and the assets currently available are adequate to fund the actuarial liabilities on account of all benefits under the system. The liquidation period for the State's unfunded accrued liability is 39 years from June 30, 1981. The municipalities are to fund their accrued liabilities over a 39-year period from June 30, 1981 or over a shorter period if they so elect.

Respectfully submitted,

GEORGE B. BUCK CONSULTING ACTUARIES, INC.

(Signed) THOMAS J. CAVANAUGH

Thomas J. Cavanaugh, F.S.A.
Consulting Actuary

REPORT OF THE ACTUARY ON THE FORTIETH ANNUAL VALUATION OF
THE EMPLOYEES' RETIREMENT SYSTEM OF
THE STATE OF MARYLAND
AS OF JUNE 30, 1981

SECTION I - SUMMARY OF PRINCIPAL RESULTS

1. For convenience of reference, the principal results of the current and preceding valuations are summarized below.

<u>Valuation Date</u>	<u>6/30/81</u>	<u>6/30/80</u>
Number of active members:		
Men	22,239	24,915
Women	23,426	26,584
Total	45,665	51,499
Annual salaries of active members during year:		
Men	\$ 383,490,841	\$ 383,854,288
Women	301,338,128	304,371,372
Total	\$ 684,828,969	\$ 688,225,660
Number of vested deferred cases	711	572
Number of retired members and beneficiaries	14,825	13,562
Annual retirement allowances	\$ 75,147,924	\$ 61,583,328
Assets for valuation purposes	\$ 767,219,574	\$ 690,443,516
Normal contribution as per cent of payroll:		
State	9.90%	8.58%
Municipalities	12.51	8.14
Unfunded accrued liability:		
State	\$ 1,222,572,519	\$ 926,350,929
Municipalities	255,825,105	182,351,189
Total	\$ 1,478,397,624	\$ 1,108,702,118
State unfunded accrued liability contribution as per cent of payroll	7.87%	6.14%
Unfunded accrued liability liquidation period (years)	39	40

2. Comments on the valuation results as of June 30, 1981 are given in Section IV and further discussion of the contribution levels is set out in Section V.
3. The valuation as of June 30, 1981 recognizes the full impact of the change in the method of valuing post-retirement increases from a simple interest basis to a compound interest basis. Also taken into account in this valuation was the effect of continued membership transfers from the system as a result of the establishment of the Pension System for Employees.
4. Schedule B of this report outlines the full set of actuarial assumptions and methods employed. The provisions of the system are summarized in Schedule C.

SECTION II - MEMBERSHIP DATA

1. In order to obtain the aggregate liabilities and assets on account of members in the system as of June 30, 1981, data were needed with respect to each active member and beneficiary of the system and also with respect to terminations during the valuation year. The data with respect to both active and terminated members and beneficiaries were furnished to the actuary by the Retirement System office.
2. From the data, tabulations were made showing as of June 30, 1981 the number and salaries of members classified by age and years of service and the number and retirement allowances of beneficiaries on the roll as of June 30, 1981 classified by age or unexpired years of a certain period. These tabulations are presented in Schedule D.

3. With the establishment of the new Pension System for Employees, members of the Retirement System were permitted to transfer membership to the Pension System on a voluntary basis. The active membership used in this valuation reflects the transfers that actually took place through July 1, 1981. Transfers will continue to be permitted on a monthly basis in the future.
4. The following table shows the number of members of the Retirement System together with annual salaries as of June 30, 1981.

TABLE I
ACTIVE MEMBERSHIP OF THE EMPLOYEES' RETIREMENT SYSTEM OF
THE STATE OF MARYLAND
AS OF JUNE 30, 1981

GROUP	NUMBER	ANNUAL SALARIES
Men	22,239	\$ 383,490,841
Women	23,426	301,338,128
Total	45,665	\$ 684,828,969
Subtotal for State Employees*	34,245	\$ 549,959,865
Subtotal for Employees of Municipalities	11,420	\$ 134,869,104

*In addition, 169 active members of the General Assembly with annual salaries of \$2,974,200 and 31 former members eligible for deferred retirement allowances who are covered under the special provisions for members of the General Assembly were included in the calculations.

Included in the above table are 1,986 correctional officers with annual salaries of \$30,764,428 who were valued for the liberalized benefits.

5. The following table shows the number and annual amount of retirement allowances of beneficiaries on the roll as of June 30, 1981, classified by sex and status.

TABLE II

THE NUMBER AND ANNUAL RETIREMENT ALLOWANCES OF
BENEFICIARIES ON THE ROLL AS OF JUNE 30, 1981

GROUP	NUMBER	TOTAL RETIREMENT ALLOWANCES
Retired on October 1, 1941 and after:		
Service Retirements:		
Men	6,049	\$ 35,870,352
Women	5,618	25,330,476
Total	11,667	\$ 61,200,828
Ordinary and Accidental Disability Retirements:		
Men	1,165	\$ 6,044,328
Women	883	3,475,428
Total	2,048	\$ 9,519,756
Beneficiaries of Deceased Members and Pensioners:		
Men	42	\$ 122,016
Women	1,067	4,302,936
Total	1,109	\$ 4,424,952
Retired Prior to October 1, 1941:		
Men	1	\$ 2,388
Women	0	0
Total	1	\$ 2,388
Grand Total	14,825	\$ 75,147,924

In addition there were 711 deferred retirements included in the valuation.

SECTION III - ASSETS

1. The Annuity Savings Fund is the fund to which are credited the contributions made by members together with interest thereon. As of June 30, 1981, the Annuity Savings Fund had assets credited to it equal to \$287,885,450, based on information reported by the Board of Trustees.
2. The amount of the assets taken into account in this valuation is a five-year moving average of unit market values and is based principally on information reported by the Board of Trustees.
3. Under the five-year moving average of unit market values method an artificial unit value is established as a starting point, and based on that value the starting number of units determined. The increase in the number of units is determined by converting the net cash flow, excluding realized gains and losses, into additional units based on the unit value at the beginning of the measurement period. At the end of the measurement period the number of units is divided into the market value of the fund to determine the new unit value. The average unit value over the past five years is multiplied by the number of units available at the valuation date to determine the value of assets at the valuation date.
4. For actuarial purposes, the assets were calculated to be equal to \$771,079,047 as of June 30, 1981 based on a five-year moving average of unit market values. In the previous valuation, the value of the assets was \$784,952,593 as of June 30, 1980.
5. It is recommended that a transfer of assets from the Accumulation Fund of the Retirement System to the Accumulation Fund of the Pension System be made effective June 30, 1981 in the amount of \$3,989,625 at market value. This transfer is necessary to reflect the shift in liabilities

from the Retirement System to the Pension System as a result of those who elected to transfer membership to the Pension System. When this transfer is reflected in the five-year moving average value, there remains \$767,219,574 as the amount of assets for actuarial purposes for the valuation of the Retirement System.

SECTION IV - COMMENTS ON VALUATION

Schedule A of this report contains the results of the valuation which show present assets and liabilities of the system as of June 30, 1981. The following comments on the valuation are pertinent:

The schedule shows that the system has total accrued liabilities of \$2,245,617,198 of which \$882,287,403 is for the prospective benefits payable on account of present retired members and beneficiaries, \$27,578,271 is for the prospective benefits payable on account of members terminated with vested rights and \$1,335,751,524 is for the prospective benefits payable on account of present active members based on service rendered to the valuation date. Against these liabilities, the system has present assets of \$767,219,574. The difference between the accrued liabilities and the present assets, or \$1,478,397,624, represents the unfunded accrued liability as of June 30, 1981. Of this total, \$1,222,572,519 is on account of State membership and \$255,825,105 is on account of the membership of the municipalities.

The Employers' contributions to the system are defined by the retirement law to consist of a "normal contribution" which is to

cover current liabilities, that is, liabilities accruing on account of service of members during the year following the valuation date not covered by member contributions, and an "accrued liability contribution" which is to cover liabilities on account of service rendered prior to the valuation date.

The valuation indicates that a normal contribution of \$80,828,810 is required of the State and \$23,249,478 is required of municipalities on account of prospective benefits accruing during the year following June 30, 1981 to active members included in the valuation. Of the State total, \$26,093,867 is to be met by member contributions during the year, and the remainder, or \$54,734,943, is to be met by State contributions. This normal contribution represents 9.90% of the payroll of active State members included in the valuation.

Of the municipalities total, \$6,377,353 is to be met by member contributions during the year, and the remainder, or \$16,872,125, is to be met by municipal contributions. This normal contribution represents 12.51% of the payroll of active municipal members included in the valuation.

In addition, an accrued liability contribution at the rate of 7.87% of payroll is necessary to liquidate the State's unfunded accrued liability of \$1,222,572,519 over 39 years from June 30, 1981 on a level percent of payroll basis. The accrued liability

contribution rate was determined under the assumption that total payroll of the combined active membership of the Retirement and Pension Systems would escalate by 5% per year for the 39-year period. The municipalities are to fund their accrued liabilities over a 39-year period from June 30, 1981 or over a shorter period if they so elect. The accrued liability contributions payable by municipalities were certified as of June 30, 1980.

SECTION V - CONTRIBUTIONS PAYABLE UNDER THE SYSTEM

On the basis of the valuation as of June 30, 1981, normal contribution rates of 9.90 per cent of payroll for the State and 12.51 per cent of payroll for municipalities are being recommended. It is further recommended that the State's accrued liability rate be set at 7.87 per cent of payroll. This rate will be sufficient to fully liquidate the unfunded accrued liability as of June 30, 1981, within 39 years.

SECTION VI - EXPERIENCE

The valuation was based on the rates of separation, the mortality tables, an interest rate of 7% and the salary scales adopted by the Board on June 10, 1980. An outline of the actuarial assumptions and methods used is presented in Schedule B. The experience during the year ended June 30, 1981 was unfavorable in most respects, resulting in financial losses to the system.

SECTION VII - ACCOUNTING INFORMATION

1. Opinion No. 8 of the Accounting Principles Board of the American Institute of Certified Public Accountants, as amended by Statement No. 36 of

the Financial Accounting Standards Board, requires that certain items of information concerning retirement systems be furnished by the actuary for the State's audited financial statements.

2. Statement No. 35 of the Financial Accounting Standards Board requires that certain items of information be furnished by the actuary for the system's audited financial statements.
3. The information required by the amended Opinion No. 8 and Statement No. 35 includes a comparison of the actuarial present value of accrued (accumulated) benefits with the market value of the assets as of the valuation date. The actuarial present value of accrued benefits presented includes the additional liabilities attributable to the change in the post-retirement increase interest basis. The relevant amounts as of June 30, 1981 are:

Actuarial present value
of accrued benefits:

	<u>State</u>	<u>Municipalities</u>	<u>Total</u>
Vested benefits			
Participants currently receiving payments	\$ 570,442,396	\$ 70,032,884	\$ 640,475,280
Other participants	<u>449,252,883</u>	<u>91,616,747</u>	<u>540,869,630</u>
	\$1,019,695,279	\$161,649,631	\$1,181,344,910
Nonvested benefits	<u>16,199,858</u>	<u>2,811,984</u>	<u>19,011,842</u>
Total	\$1,035,895,137	\$164,461,615	\$1,200,356,752
Assets at market value			\$ 797,081,984*

*Before asset transfer to Pension System for Employees.

As of June 30, 1980, the total actuarial present value of accrued benefits was \$1,159,793,002. During the year 1980-81, the actuarial present value of accrued benefits decreased \$254,004,991 as a result of changes in actuarial assumptions and increased \$109,318,056 as a result of a change in the method of valuing the post-retirement increases in allowances.

The actuarial present value of vested and nonvested accrued benefits is based on an interest rate of 10%. This rate represents the estimated constant equivalent rate of return for the periods during which payment of these benefits will be deferred based on the interest rates in use as of the valuation date to calculate the Pension Benefit Guaranty Corporation's annuity values for terminating plans.

SCHEDULE A

RESULTS OF THE VALUATION AS OF JUNE 30, 1981

(1)	Accrued Actuarial Liabilities	
	Present value of prospective benefits payable in respect of:	
(a)	Present retired members and beneficiaries	\$ 882,287,403
(b)	Present terminated members with vested rights	27,578,271
(c)	Present active members	<u>1,335,751,524</u>
(d)	Total accrued actuarial liabilities	\$ 2,245,617,198
(2)	Assets of the System	<u>767,219,574</u>
(3)	Unfunded Accrued Liabilities = (1)(d)-(2)	\$ 1,478,397,624
(4)	Unfunded accrued liabilities of State	\$ 1,222,572,519
(5)	One year normal contribution on account of State active members	\$ 80,828,810
(6)	One year State members' contribution	<u>26,093,867</u>
(7)	One year normal contribution by State = (5)-(6)	\$ 54,734,943
(8)	Total State active member payroll	\$ 552,934,065
(9)	State normal contribution rate = (7)÷(8)	9.90%
(10)	Accrued Liability Rate	7.87%
(11)	Accrued Liability Liquidation Period	<u>39 years</u>
(12)	One year normal contribution on account of Municipal active members	\$ 23,249,478
(13)	One year Municipal members' contribution	<u>6,377,353</u>
(14)	One year normal contribution by Municipalities = (12)-(13)	\$ 16,872,125
(15)	Total Municipal active member payroll	\$ 134,869,104
(16)	Municipalities normal contribution rate = (14)÷(15)	12.51%

SCHEDULE B

OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS

VALUATION INTEREST RATE: 7% per annum, compounded annually.

SEPARATIONS FROM ACTIVE SERVICE: Representative values of the assumed annual rates of withdrawal, vesting, disability, death and early and normal retirement for regular employees and correction officers are as follows:

<u>Annual Rates of</u>						
<u>Age</u>	<u>Withdrawal and Vesting</u>	<u>Disability</u>		<u>Death</u>	<u>Retirement</u>	
		<u>Ordinary</u>	<u>Accidental</u>		<u>Early</u>	<u>Normal</u>
<u>Regular Employees</u>						
25	15.1%	.03%	.01%	.08%		
30	11.2	.04	.01	.10		
35	8.8	.08	.02	.14		
40	7.0	.18	.03	.22	11.3%	
45	5.6	.35	.03	.32	10.3	5.0%
50	5.6	.63	.05	.46	9.9	5.0
55	4.6	1.03	.05	.67	9.6	11.0
60				.96		12.5
65				1.41		22.9
69				1.85		62.9
<u>Correction Officers</u>						
25	18.1%	.04%	.01%	.09%		
30	13.5	.06	.01	.12		
35	10.6	.09	.02	.17		
40	8.5	.14	.03	.26		13.2%
45	6.8	.20	.03	.38		13.5
50	5.6	.26	.05	.55		14.2
55	4.6	.30	.05	.80		15.8
60						100.0

Representative values of the assumed annual rates of death for members of the Legislative Plan are as follows:

<u>Age</u>	<u>Annual Rates of Death</u>
25	.07%
30	.10
35	.16
40	.24
45	.39
50	.61
55	.97
59	1.40

NORMAL RETIREMENT AGE: Age 60 for members of the Legislative Plan.

SALARY INCREASES: Representative values of the assumed annual rates of future salary increases are as follows:

<u>Age</u>	<u>Annual Rates of Salary Increases</u>	
	<u>Regular Employees and Correction Officers</u>	<u>Members of Legislative Plan</u>
25	9.98%	6.00%
30	8.23	6.00
35	7.08	6.00
40	7.17	6.00
45	7.24	6.00
50	5.75	6.00
55	6.24	6.00
60	5.75	
65	6.15	
69	5.75	

DEATHS AFTER RETIREMENT: According to the 1974 George B. Buck Mortality Tables. Special tables are used for the period after disability retirement.

LOADING OR CONTINGENCY RESERVE: None.

VALUATION METHOD: Accrued benefit cost method (with projection). All gains and losses are reflected in the unfunded accrued liability.

ASSET VALUATION METHOD: Five-year moving average of unit market values. Under this method an artificial unit value is established as a starting point, and based on that value a starting number of units is determined. The increase in the number of units is determined by converting the net cash flow, excluding realized gains and losses, into additional units based on the unit value at the beginning of the measurement period. At the end of the measurement period the number of units is divided into the market value of the fund to determine the new unit value. The average unit value over the past five years is multiplied by the number of units available at the valuation date to determine the value of assets at the valuation date.

SCHEDULE C

SUMMARY OF MAIN SYSTEM PROVISIONS AS INTERPRETED FOR VALUATION PURPOSES

BACKGROUND

The Employees' Retirement System of the State of Maryland began operation on October 1, 1941 under the provisions of Article 73B of the Annotated Code of Maryland. Membership in the system was open to all regular employees in either the classified or unclassified service of the State, except employees who were members, or eligible to become members, of the Teachers' Retirement System of the State of Maryland, of the State Police Retirement System of the State of Maryland, or of the Judges' Pension System. Employees whose compensation is only partly paid by the State or who are serving on a temporary basis are not eligible to join.

By Chapter 969 of the Laws of 1945, membership in the system was opened to employees of any municipality in the State where the legislative body of the municipality approved participation in the system. Employees of such municipalities participate on the same basis as State employees, except that special credit is allowable for service rendered prior to participation on account of which the municipality makes a special contribution.

The membership of the system was closed to all regular State and municipal employees effective January 1, 1980. Correctional officers and members of the General Assembly were not affected.

The following summaries give the main benefit and contribution provisions of the system as used in the valuation. "Average final compensation" is used to mean the average annual compensation received by the member during the three consecutive years of service preceding retirement or death during which his earnable compensation was highest.

BENEFITS

Service Retirement Allowance

Condition for Allowance

Upon the retirement of any member who has attained the age of 60 or has rendered 25 years of creditable service, a service retirement allowance is payable. Retirement is compulsory at age 70 except for elected or appointed officials.

A correctional officer in certain job classifications may retire after the completion of 20 years of creditable service provided he was in one of such job classifications for at least 5 years prior to retirement. Retirement is compulsory at age 60 for such correctional officers but year to year extensions may be permitted.

Amount of Allowance

If at retirement the member has attained age 60 or completed 30 years of creditable service, or if a qualified correctional officer has completed 20 years of creditable service, the retirement allowance is equal to $1/55$ of the average final compensation of the member multiplied by his years of creditable service.

If at retirement the member, other than a qualified correctional officer, has not attained age 60, nor completed 30 years of creditable service, the retirement allowance payable at retirement is reduced by $1/2$ of 1% for each month by which his date of retirement precedes the earlier of the date he would have attained age 60, or the date at which he would have completed 30 years of creditable service had he continued in service.

Discontinued Service Allowance

Condition for Allowance

If a member appointed or elected for a fixed term is not reappointed or reelected after 16 years of creditable service, he may elect to retire and receive a retirement allowance as described in (a).

If a member vacates his position by reason of the termination of his tenure by Act of the General Assembly after 20 years of creditable service, he may elect to retire and receive a retirement allowance as described in (b).

Amount of Allowance

(a) The discontinued service allowance consists of an annuity which is the actuarial equivalent of the member's accumulated contributions, plus a pension equal to the ordinary disability pension that would be payable at the time of retirement if the member had been retired on an ordinary disability benefit.

(b) The discontinued service allowance is equal to the service allowance payable on account of service to date of retirement.

Disability Retirement Allowance

Disability Due to Ordinary Causes

Condition for Allowance

Upon the application of a member or of his department head, a member who is mentally or physically incapacitated for the further performance of duty after five or more years of service may be retired on an ordinary disability retirement allowance.

Amount of Allowance

The ordinary disability retirement allowance is equal to the service retirement allowance if the member has attained age 60 or has completed 30 years of creditable service. Otherwise, the ordinary disability retirement allowance is $1/55$ of the average final compensation of the member multiplied by the number of years of his creditable service. The minimum allowance

payable is 25% of the average final compensation except in the case of members entering the service after age 46. In the latter case, the minimum rate of allowance is the rate of allowance which would have been payable at age 60 had he remained in service with the same average final compensation.

Disability Due to Accident in the Actual Performance of Duty

Condition for Allowance

Upon the application of a member or of his department head, a member who has been totally and permanently incapacitated for duty as the result of an accident occurring in the actual performance of duty may be retired on an accidental disability retirement allowance.

Amount of Allowance

The accidental disability retirement allowance is equal to the service retirement allowance if the member has attained age 60; otherwise, it consists of a pension equal to $66\frac{2}{3}\%$ of the member's average final compensation and the annuity provided by the member's own accumulated contributions, but in no event is the accidental disability retirement allowance to exceed the average final compensation of the member.

Lump Sum Death Benefit

Condition for Benefit

Upon the death of a member in service, a benefit is paid to such person as he has nominated, if living, otherwise to his estate unless a benefit is paid to his spouse.

Amount of Benefit

The benefit consists of the return of all contributions of the member with interest accumulations and, if the member has one or more years of service, an additional lump sum equal to the annual earnable compensation of the member at the time of death.

Death Benefit to Spouse

Condition for Allowance

Upon the death of a member in active service who is eligible for service retirement or who has attained age 55 and

rendered 15 years of creditable service and who has not nominated a beneficiary other than his spouse, his spouse will receive a retirement allowance.

Amount of Allowance

The retirement allowance is equal to the option 2 allowance that would have been payable had the member retired 30 days prior to death and elected such option where the pension without optional modification in the case of a member who is not eligible for service retirement is calculated on the same basis as though he were eligible for service retirement, except that the spouse may elect to receive in lieu of such allowance the lump sum death benefit including the return of the member's accumulated contributions.

Return of Contributions

Upon the withdrawal of a member prior to retirement, the entire amount of his contributions with interest accumulations is returned to him or to his estate.

Vested Retirement Allowance

Condition for Allowance

Any member whose service is terminated other than by death or retirement after 5 or more years of creditable service may elect to receive a vested retirement allowance in lieu of the return of his accumulated contributions.

Amount of Allowance

The vested retirement allowance is a deferred allowance commencing at age 60, or if a qualified correctional officer at age 55, equal to the service retirement allowance based on the member's creditable service and average final compensation at the time his service was terminated.

Special Privileges Upon Retirement

Members upon retirement may elect to receive the actuarial equivalent of their retirement allowance in any one of the following optional forms:

Option 1 - Reduced payments during life with the provision that in the case of death before the retirement allowance payments have equalled the present value of the retirement allowance of the member at

the date of retirement, the balance shall be paid to his legal representatives or to such person as he has nominated.

Option 2 - Reduced payments covering two lives with the provision that at the death of the member, the same allowance shall be continued throughout the life of such other person as the member shall have designated at the time of his retirement.

Option 3 - Reduced payments covering two lives with the provision that at the death of the member, one-half of his allowance shall be continued throughout the life of such other person as the member shall have designated at the time of his retirement.

Option 4 - Reduced payments during life with the provision that at death some other benefit, approved by the Board, will be payable provided that the total of the reduced retirement allowance during life and the succeeding benefit shall be computed to be of equivalent actuarial value to the retirement allowance that would have been payable without optional modification.

Benefits to Employees Retired Prior to October 1, 1941

All pensions payable to former employees retired under the provisions of Article 73B and in force on October 1, 1941 are continued and paid from the funds of the Employees' Retirement System.

Post Retirement Adjustments in Allowances

The allowances of retired members are adjusted annually on the basis of the ratio of the Consumer Price Indices from year to year.

CONTRIBUTIONS

By Members

Each member who enters the system on and after July 1, 1973 contributes at a rate of 5 per cent of his earnable compensation. Each member who was a member on June 30, 1973 contributes on and after July 1, 1973 at the lesser of the rate he was contributing prior to July 1, 1973 or 5 per cent of his earnable compensation.

By States and Participating
Municipalities

The State makes annual contributions equal to a percentage of the salaries of all members who are State employees known as the "normal contribution" and an additional percentage of such salaries known as the "accrued liability contribution".

Each participating municipality contributes at a normal contribution rate which is the same for all municipalities, and also pays a special accrued liability contribution based on the accrued liability assumed by the system on account of the participation of the municipality and the additional accrued liability on account of any amendments.

SPECIAL PROVISIONS FOR MEMBERS OF THE GENERAL ASSEMBLY

Any person who was a member of the General Assembly of the State of Maryland on January 13, 1971 could elect to be covered by the special provisions summarized below on or prior to March 15, 1971. Any person taking office after January 13, 1971 must make his election within 60 days after appointment or election. Creditable service is allowed for service in the General Assembly during which or for which a member makes the required contributions to the system.

BENEFITS

Service Retirement Allowance

Condition for Allowance

Any member is eligible to retire on a service retirement allowance if he has attained the age of 50 and completed 8 years of creditable service.

Amount of Allowance

Upon retirement at age 60 or over the service retirement allowance is equal to 2-1/2% of the member's highest annual earnable compensation during his creditable service multiplied by the number of his years of creditable service with a maximum of 60% of such compensation.

If the member is under age 60 the allowance is the actuarial equivalent of the allowance computed in accordance with the above paragraph.

The allowance for service prior to January 1, 1971 can not be less than the allowance computed under the old Legislative Plan for such service.

Deferred Service Retirement Allowance

Condition for Allowance

A member who withdraws from service prior to age 60 after having rendered at least 8 years of creditable service and who elects to leave his accumulated contributions in the system is eligible for a deferred service retirement allowance.

Amount of Allowance	The deferred service retirement allowance commences at age 60 and is calculated as a service retirement allowance on the basis of the member's creditable service and compensation up to the date of withdrawal from service. The member may elect to receive an actuarially reduced allowance upon his attainment of age 50.
Termination Allowance	
Condition for Allowance	A member whose service is terminated before the completion of 8 years of service and who elects to leave his accumulated contributions in the system and make the future contributions which would have been made by him and on his behalf by the State until he has acquired a total of 8 years of creditable service, is eligible for a termination retirement allowance.
Amount of Allowance	The termination retirement allowance is computed as a service retirement allowance and commences at age 60 or at age 50 with an actuarial reduction.
Spouse's Benefit	
Condition for Benefit	Upon the death of (i) any retired member who is in receipt of a retirement allowance, (ii) any retired member who is eligible to receive a deferred allowance and (iii) any active member who has completed 8 years of service, an allowance is paid to the surviving spouse.
Amount of Benefit	The spouse's allowance commences at age 60 and is equal to one-half of the service retirement allowance which the member was receiving or would have been eligible to receive had he been eligible to retire at the time of his death. The spouse may elect to receive an actuarially reduced allowance any time after the attainment of age 50.
Death Benefit	Upon the death of a member in service on whose behalf no other benefit is payable, his accumulated benefits will be returned to his designated beneficiary or his estate.

Return of Contributions

Upon the termination of a member's service in the General Assembly prior to retirement, the entire amount of his accumulated contributions will be returned upon his application therefor.

CONTRIBUTIONS

By Members

Members contribute 5% of their compensation. Contributions are discontinued after 24 years of service.

By State

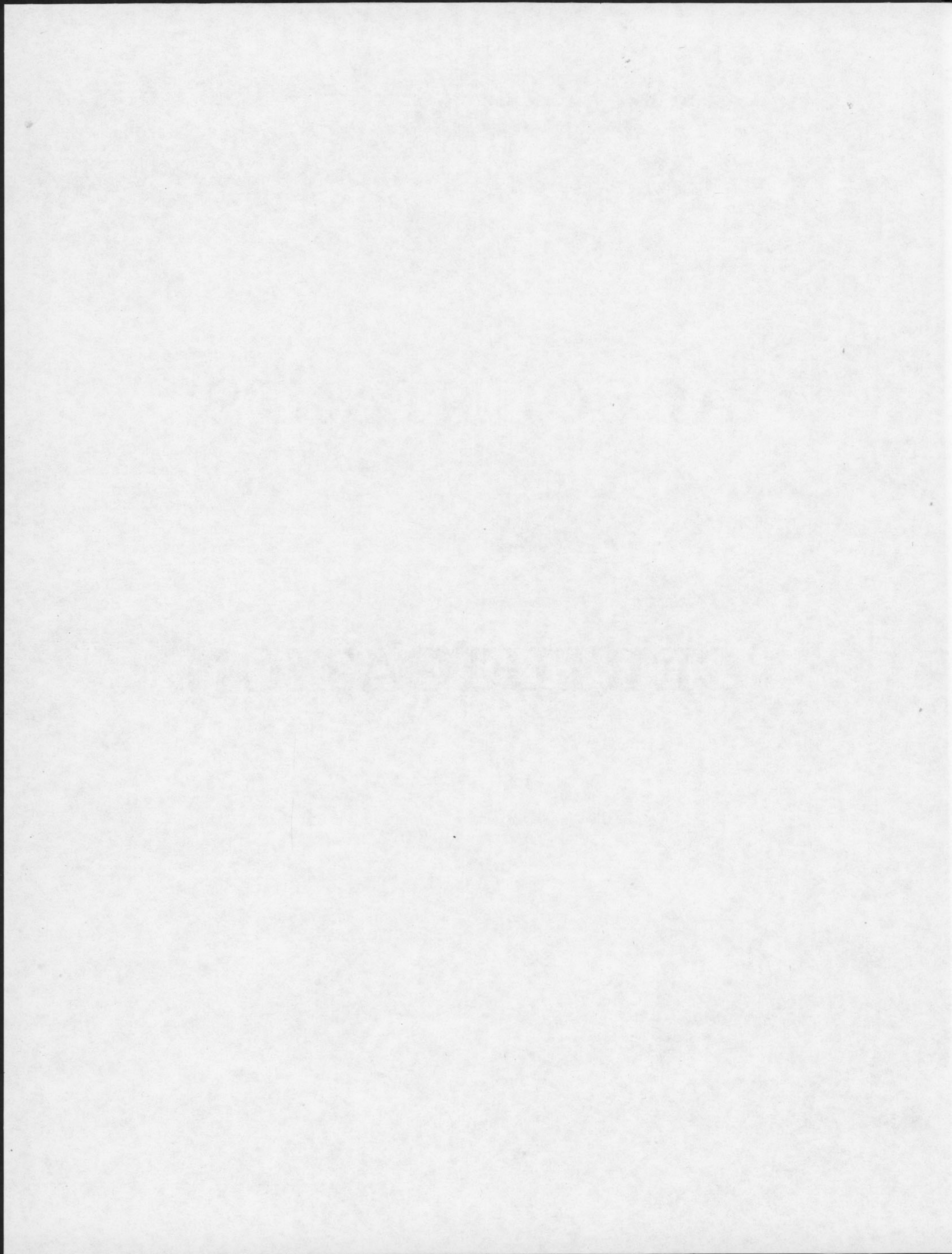
The State makes such contributions as are necessary to fund the benefits on a sound actuarial basis.

THE UNIVERSITY OF CHICAGO
DIVISION OF THE PHYSICAL SCIENCES
DEPARTMENT OF CHEMISTRY
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ACCOUNTANTS'

CERTIFICATION





EUGENE J. GERCZAK, CPA
LEGISLATIVE AUDITOR

Division of Audits
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ROBERT W. DORSEY, CPA
ANTHONY J. VERDECCHIA, CPA
AUDIT MANAGERS

Board of Trustees
Employees' Retirement System
of the State of Maryland

We have examined the balance sheets of the Employees' Retirement System of the State of Maryland as of June 30, 1981 and 1980 and the related statements of revenue and expenses and changes in fund balances for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Employees' Retirement System of the State of Maryland at June 30, 1981 and 1980, and the results of its operations and the changes in its fund balances for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Eugene J. Gerczak
Eugene J. Gerczak, CPA
LEGISLATIVE AUDITOR

Robert W. Dorsey
Robert W. Dorsey, CPA
AUDIT MANAGER

March 16, 1982

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF MARYLAND

TRUST FUND
BALANCE SHEET
JUNE 30, 1981 AND 1980

	JUNE 30,	
	1981	1980
- - ASSETS - -		
ACCOUNTS RECEIVABLE:		
Members' contributions - Note 2c	\$ 1,107,888	\$ 1,216,604
Employers' contributions - Note 2c	9,112,113	4,885,857
Due from Combined Equity Fund - Note 2d	2,228,759	-
Due from Combined Fixed Income Fund - Note 2d	3,300,000	-
Other	533,149	478,504
Total accounts receivable	\$ 16,281,909	\$ 6,580,965
INVESTMENTS - Note 2d:		
Pro rata share of the Combined Fixed Income Fund of the Maryland State Retirement Systems; at amortized cost (market value \$327,167,032 and \$361,434,764 at June 30, 1981 and 1980, respectively)	\$ 452,933,120	\$ 440,018,491
Pro rata share of the Combined Equity Fund of the Maryland State Retirement Systems; at amortized cost (market value \$454,695,603 and \$349,804,213 at June 30, 1981 and 1980, respectively)	372,668,070	305,362,500
Other, at cost (approximates market value)	3,582,314	3,624,742
Total investments	\$ 829,183,504	\$ 749,005,733
TOTAL ASSETS	\$ 845,465,413	\$ 755,586,698
- - LIABILITIES AND FUND BALANCES - -		
LIABILITIES:		
Provision for unrepresented checks - Note 2e	\$ 7,691,469	\$ 4,295,013
Amounts withheld from retirees	1,091,118	857,451
Refunds payable	169,820	2,337,868
Other	216,589	270,826
Total liabilities	\$ 9,168,996	\$ 7,761,158
FUND BALANCES:		
Annuity Savings Fund - employees - Note 2f	\$ 287,885,450	\$ 269,742,642
Annuity Savings Fund - judges - Note 2f	3,619,877	3,085,652
Retirement Accumulation Fund - Note 2g	544,791,090	474,997,246
Total fund balances	\$ 836,296,417	\$ 747,825,540
TOTAL LIABILITIES AND FUND BALANCES	\$ 845,465,413	\$ 755,586,698

The accompanying notes are an integral part of this financial statement.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF MARYLAND

TRUST FUND
STATEMENT OF REVENUE AND EXPENSES BY FUND
FOR THE FISCAL YEARS ENDED JUNE 30, 1981 AND 1980

	JUNE 30,	
	1981	1980
ANNUITY SAVINGS FUND - JUDGES - Note 2f:		
Revenue:		
Members' contributions	\$ 547,619	\$ 476,694
Expenses:		
Refunds	<u>(3,852)</u>	<u>(6,758)</u>
EXCESS OF REVENUE OVER EXPENSES	<u>\$ 543,767</u>	<u>\$ 469,936</u>
ANNUITY SAVINGS FUND - EMPLOYEES - Note 2f:		
Revenue:		
Members' contributions	\$ 36,014,496	\$ 45,376,191
Expenses:		
Refunds	<u>(11,604,472)</u>	<u>(89,676,873)</u>
EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)	<u>\$ 24,410,024</u>	<u>\$(44,300,682)</u>
RETIREMENT ACCUMULATION FUND - Note 2g:		
Revenue:		
Employer contributions	\$ 90,177,927	\$ 71,115,895
Investment income - Note 2d	49,216,044	54,903,212
Expenses:		
Benefit payments	<u>(71,534,976)</u>	<u>(60,102,868)</u>
EXCESS OF REVENUE OVER EXPENSES	<u>\$ 67,858,995</u>	<u>\$ 65,916,239</u>

The accompanying notes are an integral part of this financial statement.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF MARYLAND
TRUST FUND
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEARS ENDED JUNE 30, 1981 AND 1980

	Annuity Savings Fund		Retirement Accumulation Fund
	Judges (Note 2f)	Employees	(Note 2g)
Balances, June 30, 1979	\$ 2,694,001	\$ 319,769,030	\$ 501,484,727
Excess of revenue over expenses (expenses over revenues) - fiscal year 1980			
Transfers to Annuity Savings Fund for Judges from the Retirement Accumulation Fund for interest credited to members' accounts	469,936	(44,300,682)	65,916,239
Transfers to Annuity Savings Fund for Employees from the Retirement Accumulation Fund for interest credited to members' accounts	116,463	-	(116,463)
Transfers to Retirement Accumulation Fund from the Annuity Savings Fund for Judges for contributions of retiring members	-	11,933,863	(11,933,863)
Transfers to Retirement Accumulation Fund from the Annuity Savings Fund for Employees for contributions of retiring members	(194,748)	-	194,748
Members' contributions transferred to Employees' Pension System from the Annuity Savings Fund	-	(2,974,359)	14,685,210
Employer contributions transferred to Employees' Pension System from the Retirement Accumulation Fund	-	-	-
Balances, June 30, 1980	\$ 3,085,652	\$ 269,742,642	\$ 474,997,246
Excess of revenue over expenses - fiscal year 1981			
Transfers to Annuity Savings Fund for Judges from the Retirement Accumulation Fund for interest credited to members' accounts	543,767	24,410,024	67,858,995
Transfers to Annuity Savings Fund for Employees from the Retirement Accumulation Fund for interest credited to members' accounts	129,277	-	(129,277)
Transfers to Retirement Accumulation Fund from the Annuity Savings Fund for Judges for contributions of retiring members	-	10,895,912	(10,895,912)
Transfers to Retirement Accumulation Fund from the Annuity Savings Fund for Employees for contributions of retiring members	(138,819)	-	138,819
Members' contributions transferred to Employees' Pension System from the Annuity Savings Fund	-	(17,032,540)	17,032,540
Employer contributions transferred to Employees' Pension System from the Retirement Accumulation Fund	-	(130,588)	-
Balances, June 30, 1981	\$ 3,619,877	\$ 287,885,450	\$ 544,791,090

The accompanying notes are an integral part of this financial statement.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF MARYLAND

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND PURPOSE

The Employees' Retirement System of the State of Maryland was established on October 1, 1941 and is administered in accordance with Article 73B of the Annotated Code of Maryland. As such, it is managed by the board of trustees for the purpose of providing retirement allowances and other benefits to State employees and the employees of participating municipal corporations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Method of Reporting

The financial statements of the Employees' Retirement System Trust Fund were prepared on the accrual basis of accounting. Information concerning unfunded actuarial liabilities can be found in Note 3.

b. Reclassifications

Certain reclassifications were made to 1980 amounts to conform with the 1981 financial statement presentation.

c. Contributions Receivable

These receivables represent contributions due at June 30 from both the members and the employers, all of which were received in the subsequent fiscal year.

d. Investments

(1) Combined Investment Funds:

At the close of business on June 30, 1978, the Employees' Retirement System transferred the majority of its investments and the accrued income thereon to the combined investment funds of the Maryland State Retirement Systems, which are structured on a basis similar to that of a mutual fund. In this regard, two commingled funds have been established; the Combined Fixed Income Fund for bonds and other fixed income investments and the Combined Equity Fund consisting principally of common stock. Amounts due from the Combined Equity Fund and the Combined Fixed Income Fund (\$2,228,759 and \$3,300,000, respectively) at June 30, 1981 represent withdrawals from each of the respective combined funds on June 30, 1981 which were received by the System on July 1, 1981.

(2) Allocation of Shares, Investment Income, and Balance Sheet Presentation:

The initial shares of ownership in the combined investment funds were allocated to each participating system on the basis of the market value of the assets transferred by each system at June 30, 1978. Investment income is distributed monthly to the systems based on the number of shares owned by each system. The assets of the combined investment funds are carried at cost, or amortized cost when purchase premiums and discounts are involved (see following schedule). Accordingly, the accompanying balance sheets for June 30, 1981 and 1980 indicate the Employees' Retirement System's pro rata share of the assets of the Combined Fixed Income Fund and the Combined Equity Fund.

(3) Direct System Investments:

Admission to and withdrawal from each of the combined funds is allowed only as of the close of business on the last day of each month. The System purchases shares in these funds with receipts collected during the month. However, certain amounts are not invested in the combined funds but are held by the System for the purpose of meeting cash needs for the payment of benefits and refunds. In this regard, the Employees' Retirement System utilized temporary idle cash to purchase short-term investments of \$3,582,314 at June 30, 1981 and \$3,624,742 at June 30, 1980.

Net assets of the combined investment funds for all Systems at June 30, 1981 and 1980 are as follows:

	JUNE 30, 1981			
	Combined Fixed Income Fund		Combined Equity Fund	
	Cost	Market Value	Cost	Market Value
Investments:				
Bonds	\$1,348,487,615	\$ 959,381,904	-	-
Stocks	-	-	\$ 918,566,267	\$1,174,971,105
Commercial paper	50,032,929	50,032,929	281,417,421	281,417,421
Mortgages and ground rents	59,294,001	43,617,571	-	-
Other investments	3,095,225	3,095,225	1,318,270	1,318,270
Other assets	17,530,993	17,530,993	3,737,857	3,737,857
Total Assets	\$1,478,440,763	\$1,073,658,622	\$1,205,039,815	\$1,461,444,653
Less: Accounts payable- stock purchased	-	-	(2,762,727)	(2,762,727)
Net Assets	<u>\$1,478,440,763</u>	<u>\$1,073,658,622</u>	<u>\$1,202,277,088</u>	<u>\$1,458,681,926</u>

	JUNE 30, 1980			
	Combined Fixed Income Fund		Combined Equity Fund	
	Cost	Market Value	Cost	Market Value
Investments:				
Bonds	\$1,245,960,353	\$1,014,115,992	-	-
Stocks	-	-	\$ 926,963,103	\$1,064,733,900
Commercial paper	103,463,490	103,463,490	53,914,036	53,914,036
Mortgages and ground rents	63,924,918	49,057,740	-	-
Other investments	177,805	177,805	407,383	407,383
Other assets	24,735,015	24,735,015	3,194,626	3,194,626
Total Assets	\$1,438,261,581	\$1,191,550,042	\$ 984,479,148	\$1,122,249,945
Less: Accounts payable- stock purchased	-	-	(30,353,911)	(30,353,911)
Net Assets	<u>\$1,438,261,581</u>	<u>\$1,191,550,042</u>	<u>\$ 954,125,237</u>	<u>\$1,091,896,034</u>

At June 30, 1981 and 1980, accounts payable represent payables to brokers for stocks purchased for which payment has not yet been made.

The allocation of the net assets of the combined investment funds to each System at June 30, 1981 and 1980, is as follows:

	JUNE 30, 1981			
	Combined Fixed Income Fund		Combined Equity Fund	
	Cost	Market Value	Cost	Market Value
Employees' Retirement System	\$ 452,933,120	\$ 327,167,032	\$ 372,668,070	\$ 454,695,603
Teachers' Retirement System	840,494,843	610,549,669	702,137,276	849,790,697
Employees' Pension System .	78,462,453	56,996,612	52,453,025	62,627,065
Teachers' Pension System ..	58,458,537	42,582,639	34,985,006	42,954,347
State Police Retirement System	47,782,611	36,116,802	40,033,711	48,614,214
State Police Pension Fund .	309,199	245,868	-	-
Total	<u>\$1,478,440,763</u>	<u>\$1,073,658,622</u>	<u>\$1,202,277,088</u>	<u>\$1,458,681,926</u>

	JUNE 30, 1980			
	Combined Fixed Income Fund		Combined Equity Fund	
	Cost	Market Value	Cost	Market Value
Employees' Retirement System	\$ 440,018,491	\$ 361,434,764	\$ 305,362,500	\$ 349,804,213
Teachers' Retirement System	823,142,151	682,911,694	555,860,995	635,348,598
Employees' Pension System .	73,430,451	60,804,101	35,383,222	40,462,359
Teachers' Pension System ..	55,865,392	46,837,638	27,317,827	31,164,396
State Police Retirement System	45,532,737	39,315,194	30,200,693	35,116,468
State Police Pension Fund .	272,359	246,651	-	-
Total	<u>\$1,438,261,581</u>	<u>\$1,191,550,042</u>	<u>\$ 954,125,237</u>	<u>\$1,091,896,034</u>

Investment income includes interest, dividends and the accumulation of discounts, reduced for amortization of premium and accrued interest paid on securities purchased. Gains and losses due to liquidation are recorded in the fiscal period in which the transaction occurs (completed transaction method).

Net income of the combined investment funds for all Systems for the fiscal years ended June 30, 1981 and 1980, is as follows:

	JUNE 30, 1981	
	Combined Fixed Income Fund	Combined Equity Fund
Interest:		
Bonds	\$ 119,113,917	-
Commercial paper	8,407,914	\$ 25,445,259
Mortgages and ground rents	4,626,491	-
Other	6,434,524	332,045
Dividends	-	39,948,330
Profit (loss) on sale of investments	(83,951,970)	32,332,894
Net Investment Income	<u>\$ 54,630,876</u>	<u>\$ 98,058,528</u>

	JUNE 30, 1980	
	Combined Fixed Income Fund	Combined Equity Fund
Interest:		
Bonds	\$ 88,996,495	\$ 6,040
Commercial paper	23,709,924	7,906,810
Mortgages and ground rents	4,811,753	-
Other	6,598,148	317,014
Dividends	-	33,544,752
Loss on sale of investments	(5,757,768)	(10,804,693)
Net Investment Income	<u>\$ 118,358,552</u>	<u>\$ 30,969,923</u>

It is the policy of the Systems to actively manage investment portfolios. Although losses are incurred on the sale of investments, the proceeds are reinvested for the purpose of achieving an overall greater return.

The allocation of the combined investment funds' net income to each System for the fiscal years ended June 30, 1981 and 1980, is as follows:

	JUNE 30, 1981	
	Combined Fixed Income Fund	Combined Equity Fund
Employees' Retirement System	\$ 16,693,297	\$ 31,595,458
Teachers' Retirement System	31,138,242	57,091,854
Employees' Pension System	2,844,167	3,633,737
Teachers' Pension System	2,077,709	2,560,278
State Police Retirement System	1,866,673	3,177,201
State Police Pension Fund	10,788	-
Total	<u>\$ 54,630,876</u>	<u>\$ 98,058,528</u>

	JUNE 30, 1980	
	Combined Fixed Income Fund	Combined Equity Fund
Employees' Retirement System	\$ 40,507,350	\$ 9,871,231
Teachers' Retirement System	71,000,362	17,944,426
Employees' Pension System	1,865,688	1,221,129
Teachers' Pension System	1,346,081	876,834
State Police Retirement System	3,617,430	1,056,303
State Police Pension Fund	21,641	-
Total	<u>\$ 118,358,552</u>	<u>\$ 30,969,923</u>

The following is a detailed analysis of the Employees' Retirement System's investment income:

	1981	1980
From Combined Investment Funds (see preceding schedule):		
Pro rata share of the Combined Fixed Income Fund of the Maryland State Retirement Systems net income from investments	\$ 16,693,297	\$ 40,507,350
Pro rata share of the Combined Equity Fund of the Maryland State Retirement Systems net income from investments	<u>31,595,458</u>	<u>9,871,231</u>
Total Investment Income From Combined Funds	<u>\$ 48,288,755</u>	<u>\$ 50,378,581</u>
Income From Investments Held Exclusively by System:		
Interest:		
Bonds	-	\$ 19,031
Commercial paper	\$ 578,602	1,473,014
Short term investments	348,687	3,133,418
Dividends	-	1,874
Loss on sale of investments	-	<u>(102,706)</u>
Total Income From Investments Held Exclusively By System	<u>\$ 927,289</u>	<u>\$ 4,524,631</u>
TOTAL INVESTMENT INCOME	<u>\$ 49,216,044</u>	<u>\$ 54,903,212</u>

e. Provision for Unpresented Checks

The provision for unpresented checks represents the overnight investment of cash on hand, at the bank, for which checks have been issued but have not yet been presented for payment.

f. Annuity Savings Fund - Members' Contributions

Contributions made by members together with interest thereon, at 4% per annum, were credited to the Annuity Savings Fund. Upon termination of membership, the members' accumulated contributions are refunded in a lump-sum. Upon retirement, the members' accumulated contributions are transferred from this fund and credited to the Retirement Accumulation Fund. Members of the Employees' Retirement System who elect to transfer to the Employees' Pension System (see Note 2g) are either refunded their accumulated contributions and interest thereon; or at the member's option, the accumulated contributions

and interest may be transferred to the member's account in the Annuity Savings Fund of the Employees' Pension System. However, members of the Employees' Retirement System, who earned more than the Social Security wage base (wages subject to Social Security Tax) during the three fiscal years prior to their transfer to the Employees' Pension System, are required to transfer a portion of their accumulated contributions in the Employees' Retirement System's Annuity Savings Fund to the Employees' Pension System's Annuity Savings Fund. This transfer is based upon the ratio of the average social security wage base to the member's average annual salary for the three fiscal years before their transfer. Accordingly, transfers from the Employees' Retirement System's Annuity Savings Fund to the Employees' Pension System's Annuity Savings Fund (\$130,588 and \$2,974,359 for fiscal years 1981 and 1980, respectively) consist of both voluntary and required contribution transfers.

The decrease in refunds from \$89,676,873 in fiscal year 1980 to \$11,604,472 in fiscal year 1981 occurred primarily because the majority of members who transferred from the Employees' Retirement System to the Employees' Pension System, as of June 30, 1981, did so in fiscal year 1980 when the Employees' Pension System was created.

g. Retirement Accumulation Fund - Employers' Contributions

Contributions made by the employers are credited to the Retirement Accumulation Fund. All death and retirement benefits are paid from this Fund. Prior to July 1, 1980, employers' contributions for the Retirement System were composed of both funded in advance and pay-as-you-go portions (see Note 3). In this regard, legislation was enacted in fiscal year 1979 which provides for all benefits of the System to be funded in advance, starting in fiscal year 1981. Accordingly, the employers' contributions to the Retirement System, as defined by law, consist of a "normal contribution" to cover current liabilities accruing on account of current service of members, plus an "accrued liability contribution" to cover credit allowed for service rendered prior to the effective date of employer participation in the System and for subsequent amendments. The following is a detailed analysis of contributions and benefit payments:

<u>Employers' Contributions</u>	<u>Funded In Advance</u>	<u>Pay-As-You-Go</u>	<u>Total</u>
1981	\$ 90,177,927	-	\$ 90,177,927
1980	\$ 48,259,454	\$ 22,856,441	\$ 71,115,895
<u>Benefit Payments</u>			
1981	\$ 71,534,976	-	\$ 71,534,976
1980	\$ 37,699,969	\$ 22,402,899	\$ 60,102,868

The Employees' Pension System was established as a result of the enactment of Chapters 23 and 24, Laws of Maryland, 1979. Consequently, all employees hired after January 1, 1980 become members of the Employees' Pension System, whereas existing employees have the option of transferring to this System or remaining in the Retirement System. In this regard, assets aggregating \$4,211,321 in

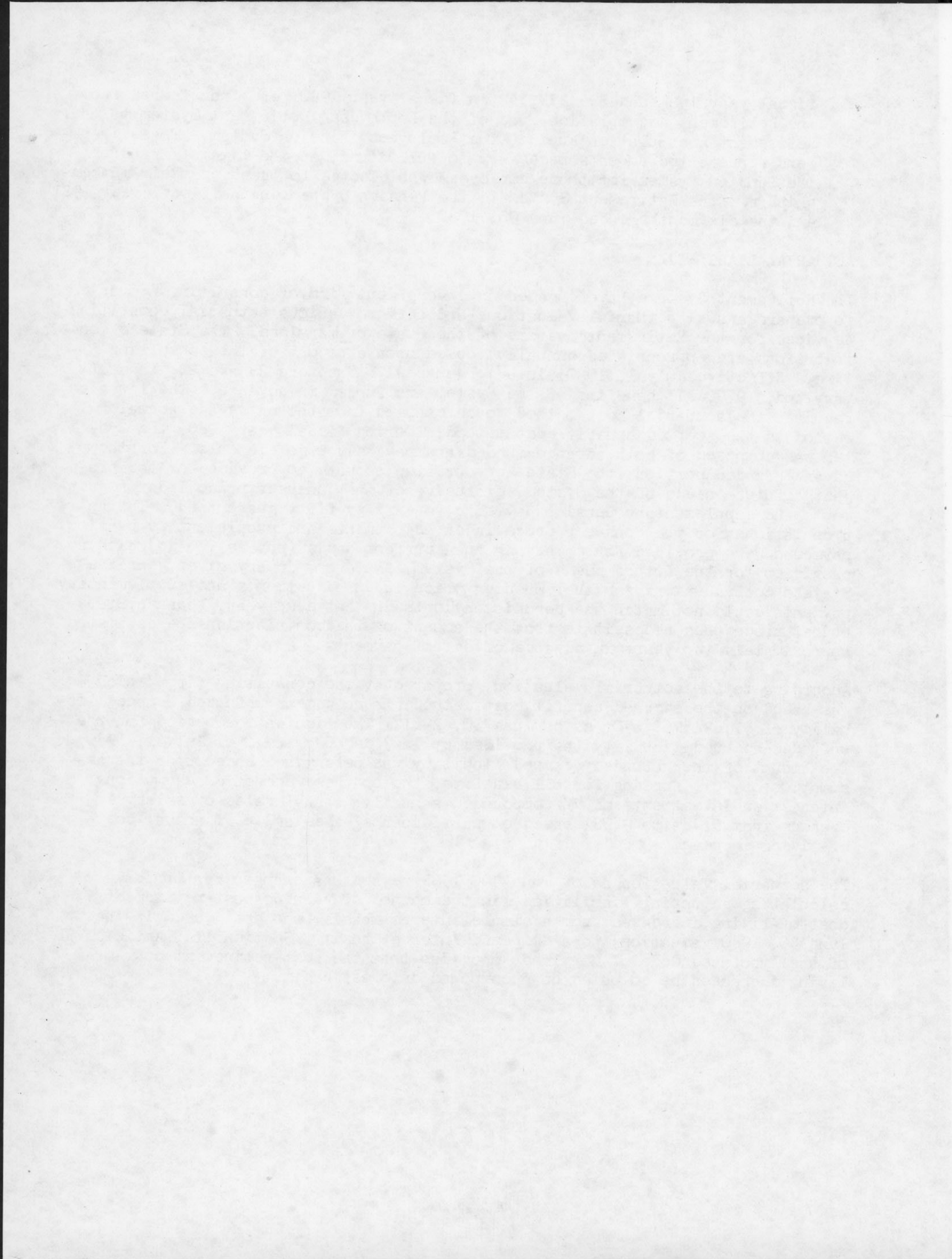
fiscal year 1981 and \$95,233,352 in fiscal year 1980 were transferred from the Retirement Accumulation Fund of the Employees' Retirement System to the Retirement Accumulation Fund of the Employees' Pension System. These transfers represented amounts necessary to fully fund, at the time of transfer, the Pension System for those employees who elected to transfer their membership from the Retirement System to the Pension System during fiscal year 1981 and the six months ended June 30, 1980.

3. ACTUARIAL LIABILITIES

The Retirement Systems have engaged an independent firm of consulting actuaries to prepare annual actuarial valuations and perform various actuarial consulting services for the Retirement Systems of the State of Maryland. The State's contributions are appropriated annually, based upon a report of the consulting firm. Effective July 1, 1980, in accordance with Chapters 23 and 24, Laws of Maryland, 1979, all benefits of the System are funded in advance. The law also required the actuarial cost method to be changed from the entry-age normal method to the accrued benefit cost method. During fiscal year 1980, the System was composed of both advance funded and pay-as-you-go elements. For the advance funded portion, the State appropriated amounts to provide for the projected future needs of the System, exclusive of the consumer price index adjustments and supplementary pension payments (one fifty-fifty guarantee). The appropriations for the consumer price index adjustments and supplementary pension payments were provided for each year on a current basis (pay-as-you-go) with no provision for the future needs of the System. However, in any given year the State's contributions for the consumer price index adjustments and supplementary payments would not match the benefit payments in that same year, because State budget procedures necessitate that the amount of the contributions be estimated approximately two years in advance of actual payments.

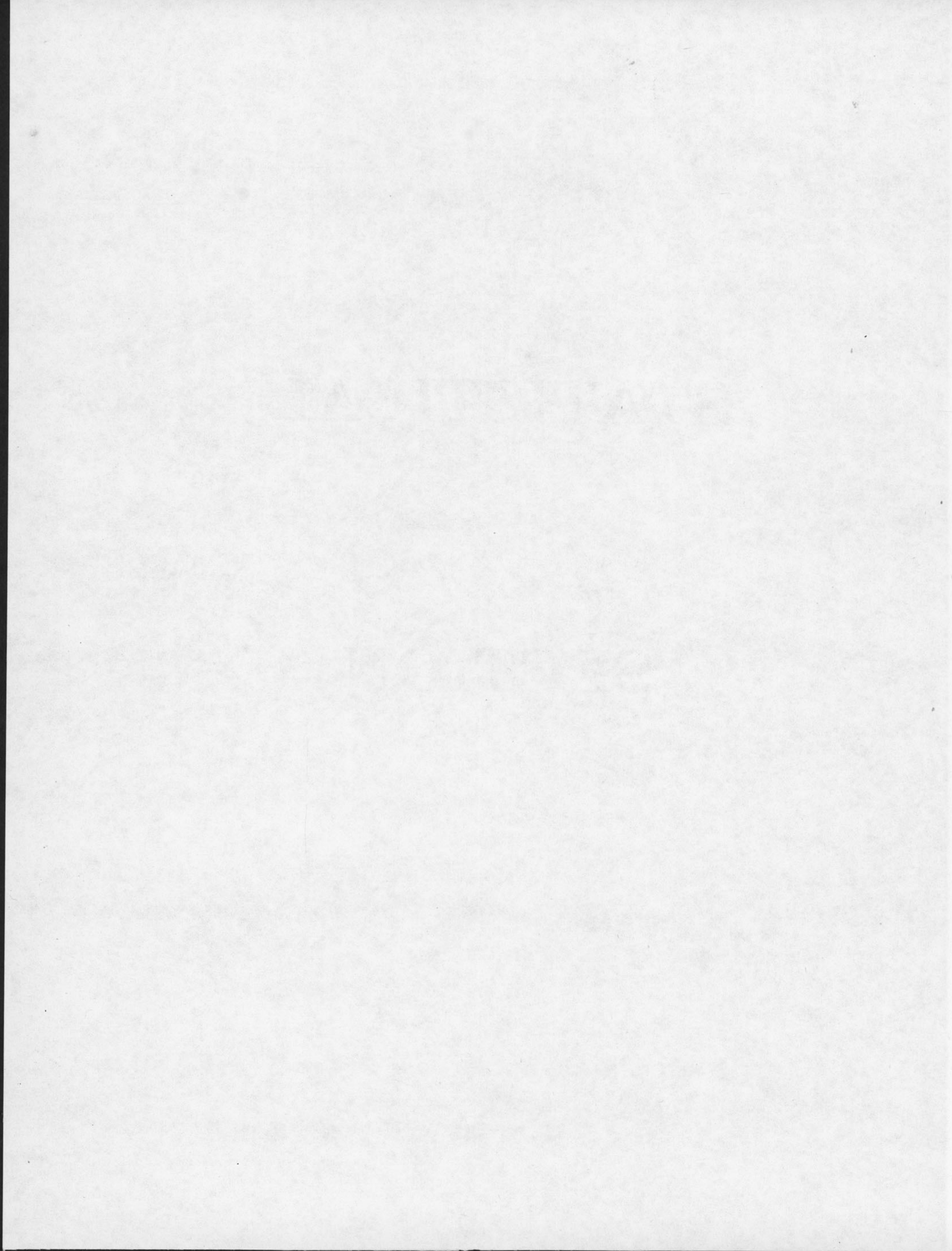
According to the actuarial valuation, prepared by the consulting firm, which was based on the accrued benefit cost method, there was an unfunded accrued liability of \$1,534,768,670, as of June 30, 1981. The liquidation period for the unfunded accrued liability (as provided by law) is 40 years from July 1, 1980. The amount of the unfunded accrued liability was determined based upon the assumption of full funding for all benefits, and on these economic assumptions: interest on investments of 7% compounded annually; annual rates of salary increases from 5.75% to 9.98% based on participants' ages and a 5% annual cost-of-living increase.

The actuarial valuation as of June 30, 1981 reflects a change, for purposes of calculating actuarial liabilities, in the method of valuing post-retirement cost-of-living increases from a simple interest basis (the basis used in the June 30, 1980 valuation) to a compound interest basis. Section 11A, Article 73B of the Annotated Code of Maryland, provides that the post-retirement cost-of-living increases be computed on a compound interest basis.



STATISTICAL

SECTION



THE DISTRIBUTION OF THE NUMBER AND AVERAGE SALARIES
OF ACTIVE MEMBERS BY AGE AS OF JUNE 30, 1981

TABLE I

<u>AGE</u>	<u>MEN</u>		<u>WOMEN</u>	
	<u>NUMBER</u>	<u>AVERAGE SALARY</u>	<u>NUMBER</u>	<u>AVERAGE SALARY</u>
18	1	\$7,153	-	\$ -
19	11	\$7,380	9	\$4,716
20	68	\$8,838	113	\$9,363
21	153	\$9,518	161	\$9,306
22	236	\$10,170	245	\$9,839
23	324	\$10,871	300	\$10,360
24	376	\$11,615	433	\$11,223
25	451	\$12,323	501	\$11,965
26	486	\$12,979	555	\$12,528
27	545	\$13,615	512	\$12,798
28	537	\$14,278	598	\$13,226
29	622	\$15,115	587	\$14,144
30	639	\$15,869	563	\$13,934
31	644	\$16,283	516	\$14,203
32	589	\$16,814	521	\$14,394
33	673	\$17,804	585	\$14,670
34	790	\$18,264	578	\$13,926
35	662	\$18,575	536	\$14,120
36	527	\$19,004	473	\$13,740
37	539	\$18,423	527	\$13,343
38	559	\$18,979	560	\$13,291
39	578	\$19,577	590	\$13,598
40	448	\$19,143	505	\$13,029

THE DISTRIBUTION OF THE NUMBER AND AVERAGE SALARIES
OF ACTIVE MEMBERS BY AGE AS OF JUNE 30, 1981

TABLE I

(CONTINUED)

<u>AGE</u>	<u>MEN</u>		<u>WOMEN</u>	
	<u>NUMBER</u>	<u>AVERAGE SALARY</u>	<u>NUMBER</u>	<u>AVERAGE SALARY</u>
41	418	\$18,643	495	\$12,398
42	436	\$18,234	487	\$12,990
43	478	\$19,906	565	\$12,685
44	480	\$18,913	531	\$12,993
45	439	\$18,730	541	\$12,419
46	473	\$18,896	515	\$12,668
47	435	\$18,920	588	\$13,118
48	450	\$18,813	531	\$12,679
49	496	\$18,374	533	\$12,581
50	460	\$19,082	576	\$12,889
51	490	\$18,468	598	\$12,528
52	523	\$18,233	616	\$12,739
53	538	\$18,455	609	\$12,688
54	565	\$18,336	612	\$13,164
55	534	\$18,680	661	\$12,918
56	528	\$17,873	643	\$12,819
57	514	\$17,950	631	\$12,662
58	517	\$17,645	667	\$12,768
59	506	\$17,959	622	\$12,660
60	550	\$17,203	563	\$12,132
61	477	\$17,927	490	\$12,160
62	370	\$17,637	380	\$12,626
63	287	\$17,164	301	\$12,418

THE DISTRIBUTION OF THE NUMBER AND AVERAGE SALARIES
OF ACTIVE MEMBERS BY AGE AS OF JUNE 30, 1981

TABLE I

(CONTINUED)

<u>AGE</u>	<u>MEN</u>		<u>WOMEN</u>	
	<u>NUMBER</u>	<u>AVERAGE SALARY</u>	<u>NUMBER</u>	<u>AVERAGE SALARY</u>
64	200	\$ 16,571	212	\$ 12,350
65	197	\$ 17,161	169	\$ 12,395
66	110	\$ 17,405	98	\$ 11,805
67	99	\$ 17,595	73	\$ 11,276
68	56	\$ 14,954	41	\$ 10,434
69	58	\$ 17,928	35	\$ 11,237
70	38	\$ 16,099	31	\$ 8,727
71	19	\$ 15,184	12	\$ 8,841
72	11	\$ 18,264	15	\$ 10,037
73	14	\$ 17,231	5	\$ 11,374
74	3	\$ 12,993	5	\$ 14,053
75	4	\$ 19,581	4	\$ 10,544
76	3	\$ 10,283	2	\$ 13,460
77	2	\$ 3,567	1	\$ 5,137
79	2	\$ 4,876	-	\$ -
80	1	\$ 12,483	-	\$ -
TOTAL	22,239	\$ 17,244	23,426	\$ 12,863

THE DISTRIBUTION OF THE NUMBER AND AVERAGE
SALARIES OF ACTIVE MEMBERS BY YEARS OF
SERVICE AS OF JUNE 30, 1981

TABLE II

<u>YEARS OF SERVICE</u>	<u>MEN</u>		<u>WOMEN</u>	
	<u>NUMBER</u>	<u>AVERAGE SALARY</u>	<u>NUMBER</u>	<u>AVERAGE SALARY</u>
0	199	\$ 12,715	66	\$ 12,481
1	350	\$ 13,212	147	\$ 11,869
2	2,570	\$ 12,772	3,446	\$ 10,377
3	1,653	\$ 14,402	2,058	\$ 11,622
4	1,458	\$ 15,721	1,930	\$ 11,917
5	1,299	\$ 16,032	1,602	\$ 12,533
6	1,428	\$ 17,176	1,708	\$ 13,182
7	1,405	\$ 17,242	1,566	\$ 13,621
8	1,495	\$ 18,353	1,673	\$ 12,990
9	860	\$ 19,145	974	\$ 13,205
10	725	\$ 18,594	770	\$ 13,881
11	672	\$ 18,496	898	\$ 13,547
12	646	\$ 18,693	871	\$ 13,367
13	578	\$ 18,799	645	\$ 13,653
14	698	\$ 18,662	760	\$ 13,984
15	644	\$ 18,760	635	\$ 13,983
16	526	\$ 19,249	472	\$ 14,292
17	508	\$ 19,354	466	\$ 14,087
18	464	\$ 18,940	384	\$ 13,762
19	442	\$ 19,014	360	\$ 14,531
20	385	\$ 19,871	288	\$ 15,257
21	353	\$ 19,710	228	\$ 14,515
22	301	\$ 18,935	227	\$ 14,532

THE DISTRIBUTION OF THE NUMBER AND AVERAGE

TABLE II

SALARIES OF ACTIVE MEMBERS BY YEARS OF

SERVICE AS OF JUNE 30, 1981

<u>YEARS OF SERVICE</u>	<u>MEN</u>		<u>WOMEN</u>	
	<u>NUMBER</u>	<u>AVERAGE SALARY</u>	<u>NUMBER</u>	<u>AVERAGE SALARY</u>
23	355	\$ 19,939	173	\$ 15,288
24	313	\$ 19,196	207	\$ 15,705
25	272	\$ 19,435	151	\$ 16,004
26	240	\$ 19,502	125	\$ 16,181
27	228	\$ 19,333	109	\$ 15,852
28	204	\$ 19,613	120	\$ 14,888
29	203	\$ 19,520	106	\$ 14,959
30	171	\$ 20,107	78	\$ 16,833
31	117	\$ 20,579	45	\$ 17,055
32	104	\$ 21,358	24	\$ 17,039
33	95	\$ 21,557	25	\$ 15,609
34	72	\$ 21,730	26	\$ 17,355
35	71	\$ 24,369	17	\$ 16,012
36	46	\$ 22,742	15	\$ 18,841
37	27	\$ 22,190	7	\$ 14,820
38	24	\$ 22,345	10	\$ 20,807
39	7	\$ 23,059	4	\$ 19,812
40	6	\$ 20,269	3	\$ 24,223
41	7	\$ 25,364	3	\$ 23,929
42	2	\$ 25,120	-	\$ -
43	3	\$ 21,011	2	\$ 19,932
44	3	\$ 20,458	-	\$ -

THE DISTRIBUTION OF THE NUMBER AND AVERAGE
SALARIES OF ACTIVE MEMBERS BY YEARS OF
SERVICE AS OF JUNE 30, 1981

TABLE II

<u>YEARS OF SERVICE</u>	<u>MEN</u>		<u>WOMEN</u>	
	<u>NUMBER</u>	<u>AVERAGE SALARY</u>	<u>NUMBER</u>	<u>AVERAGE SALARY</u>
45	5	\$28,257	-	\$ -
46	2	\$11,553	1	\$21,000
47	1	\$23,760	1	\$20,473
48	1	\$13,369	-	\$ -
52	1	\$34,736	-	\$ -
TOTAL	22,239	\$17,244	23,426	\$12,863

THE DISTRIBUTION OF THE NUMBER OF ACTIVE
MEMBERS BY SEX AND ENTRANCE DATE AS
OF JUNE 30, 1981

TABLE III

	<u>MEN</u>	<u>WOMEN</u>
Prior to 1940	1	-
1940-1945	28	18
1946-1950	298	106
1951-1955	761	409
1956-1960	1,333	830
1961-1965	2,099	1,760
1966-1970	3,683	3,669
1971-1975	6,198	7,210
1976-1980	7,639	9,358
1981	199	66
TOTAL	22,239	23,426

THE DISTRIBUTION OF THE NUMBER AND AVERAGE SALARIES
OF ACTIVE MEMBERS BY SEX FOR THE LAST
5 FISCAL YEARS

TABLE IV

<u>FISCAL YEAR</u>	<u>MEN</u>		<u>WOMEN</u>	
	<u>NUMBER</u>	<u>AVERAGE SALARY</u>	<u>NUMBER</u>	<u>AVERAGE SALARY</u>
1981	22,239	\$17,244	23,426	\$12,863
1980	24,915	\$15,407	26,584	\$11,449
1979	35,953	\$13,700	41,505	\$10,518
1978	35,674	\$12,932	40,255	\$9,936
1977	34,842	\$12,098	38,605	\$9,285

MALE RECIPIENTS OF PENSIONS CLASSIFIED BY AGE AS OF 6/30/81

TABLE V

<u>AGE</u>	<u>TYPE OF PENSION</u>				<u>TOTAL</u>
	<u>SERVICE</u>	<u>DISABILITY</u>	<u>BENEFICIARIES</u>		
22	-	-	1		1
27	-	1	-		1
29	-	1	-		1
30	-	1	-		1
31	-	1	-		1
32	-	3	1		4
33	-	5	-		5
34	-	6	-		6
35	-	7	1		8
36	-	2	-		2
37	-	4	-		4
38	-	7	-		7
39	1	5	-		6
40	2	6	-		8
41	3	1	-		4
42	-	6	-		6
43	-	14	-		14
44	1	8	-		9
45	6	14	-		20
46	6	11	1		18
47	13	15	1		29
48	13	8	-		21
49	16	23	-		39
50	12	24	-		36

MALE RECIPIENTS OF PENSIONS CLASSIFIED BY AGE AS OF 6/30/81

TABLE V

TYPE OF PENSION(CONTINUED)

<u>AGE</u>	<u>SERVICE</u>	<u>DISABILITY</u>	<u>BENEFICIARIES</u>	<u>TOTAL</u>
51	29	25	-	54
52	22	30	-	52
53	35	33	-	68
54	45	42	1	88
55	46	41	1	88
56	54	44	-	98
57	56	55	2	113
58	67	40	-	107
59	54	69	-	123
60	74	65	1	140
61	123	85	-	208
62	154	66	-	220
63	276	69	1	346
64	305	65	2	372
65	329	62	2	393
66	355	51	4	410
67	403	41	4	448
68	390	33	2	425
69	397	23	2	422
70	339	12	-	351
71	362	13	4	379
72	267	4	2	273
73	291	6	2	299

MALE RECIPIENTS OF PENSIONS CLASSIFIED BY AGE AS OF 6/30/81

TABLE V

TYPE OF PENSION

(CONTINUED)

<u>AGE</u>	<u>SERVICE</u>	<u>DISABILITY</u>	<u>BENEFICIARIES</u>	<u>TOTAL</u>
74	199	9	-	208
75	211	1	1	213
76	185	3	1	189
77	156	1	-	157
78	137	-	-	137
79	118	1	-	119
80	72	-	2	74
81	87	-	2	89
82	64	-	-	64
83	58	1	1	60
84	51	1	-	52
85	53	-	-	53
86	29	-	-	29
87	22	1	-	23
88	12	-	-	12
89	13	-	-	13
90	8	-	-	8
91	10	-	-	10
92	7	-	-	7
93	6	-	-	6
94	2	-	-	2

MALE RECIPIENTS OF PENSIONS CLASSIFIED BY AGE AS OF 6/30/81

TABLE V

TYPE OF PENSION(CONTINUED)

<u>AGE</u>	<u>SERVICE</u>	<u>DISABILITY</u>	<u>BENEFICIARIES</u>	<u>TOTAL</u>
96	1	-	-	1
98	2	-	-	2
TOTAL	6,049	1,165	42	7,256
AVERAGE AGE	69.2	58.5	64.8	67.5

FEMALE RECIPIENTS OF PENSIONS CLASSIFIED BY AGE AS OF 6/30/81

TABLE VI

<u>AGE</u>	<u>TYPE OF PENSIONS</u>			<u>TOTAL</u>
	<u>SERVICE</u>	<u>DISABILITY</u>	<u>BENEFICIARIES</u>	
24	-	-	1	1
28	-	1	1	2
29	-	1	-	1
30	-	-	1	1
31	-	1	-	1
32	-	2	-	2
33	-	2	1	3
34	-	2	-	2
36	-	-	1	1
37	-	3	-	3
38	-	5	-	5
39	-	4	2	6
40	-	6	1	7
41	-	6	1	7
42	-	9	2	11
43	-	6	1	7
44	-	8	1	9
45	1	10	-	11
46	1	9	2	12
47	1	6	2	9
48	5	6	3	14
49	1	19	6	26
50	8	15	3	26

FEMALE RECIPIENTS OF PENSIONS CLASSIFIED BY AGE AS OF 6/30/81

TABLE VI

TYPE OF PENSIONS(CONTINUED)

<u>AGE</u>	<u>SERVICE</u>	<u>DISABILITY</u>	<u>BENEFICIARIES</u>	<u>TOTAL</u>
51	11	20	4	35
52	18	23	7	48
53	16	26	13	55
54	10	15	9	34
55	20	31	11	62
56	14	42	15	71
57	28	40	22	90
58	28	43	19	90
59	24	50	16	90
60	65	46	21	132
61	166	43	27	236
62	222	69	28	319
63	295	55	32	382
64	330	45	39	414
65	343	47	36	426
66	402	39	41	482
67	350	37	36	423
68	374	23	44	441
69	350	10	47	407
70	296	10	46	352
71	293	11	41	345
72	287	8	35	330
73	245	6	56	307

FEMALE RECIPIENTS OF PENSIONS CLASSIFIED BY AGE AS OF 6/30/81

TABLE VI

TYPE OF PENSIONS(CONTINUED)

<u>AGE</u>	<u>SERVICE</u>	<u>DISABILITY</u>	<u>BENEFICIARIES</u>	<u>TOTAL</u>
74	218	6	48	272
75	181	5	45	231
76	162	3	42	207
77	137	3	40	180
78	132	1	31	164
79	103	1	27	131
80	76	1	32	109
81	70	-	27	97
82	62	-	13	75
83	67	1	24	92
84	47	1	14	62
85	37	1	17	55
86	31	-	8	39
87	22	-	6	28
88	15	-	5	20
89	11	-	5	16
90	16	-	1	17
91	8	-	4	12
92	4	-	3	7
93	6	-	1	7
94	1	-	-	1
95	4	-	-	4

FEMALE RECIPIENTS OF PENSIONS CLASSIFIED BY AGE AS OF 6/30/81

TABLE VI

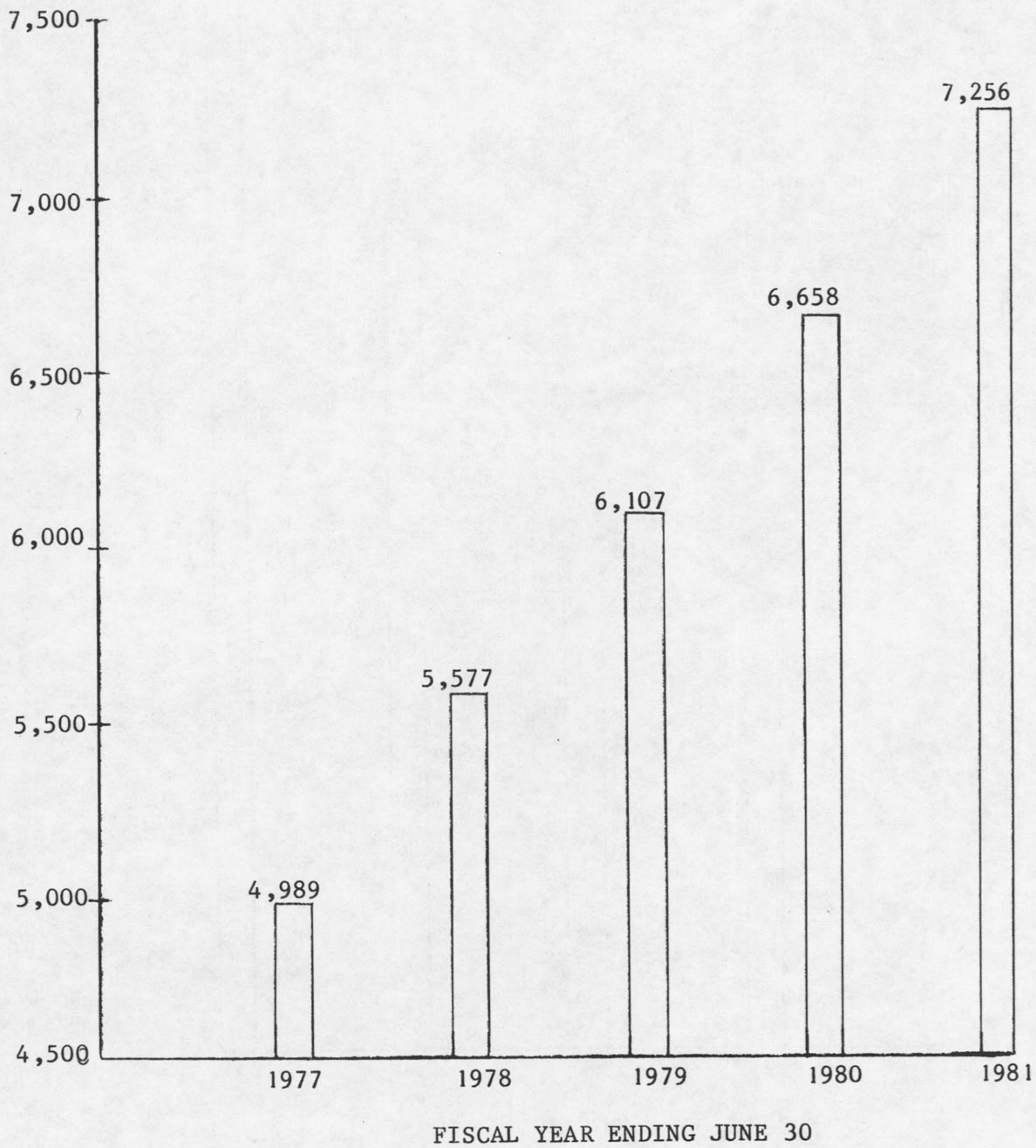
TYPE OF PENSIONS(CONTINUED)

<u>AGE</u>	<u>SERVICE</u>	<u>DISABILITY</u>	<u>BENEFICIARIES</u>	<u>TOTAL</u>
96	2	-	-	2
98	2	-	-	2
TOTAL	5,618	883	1,067	7,568
AVERAGE AGE	69.6	59.1	69.8	68.4

MALE RECIPIENTS ON PAYROLL

TABLE VII

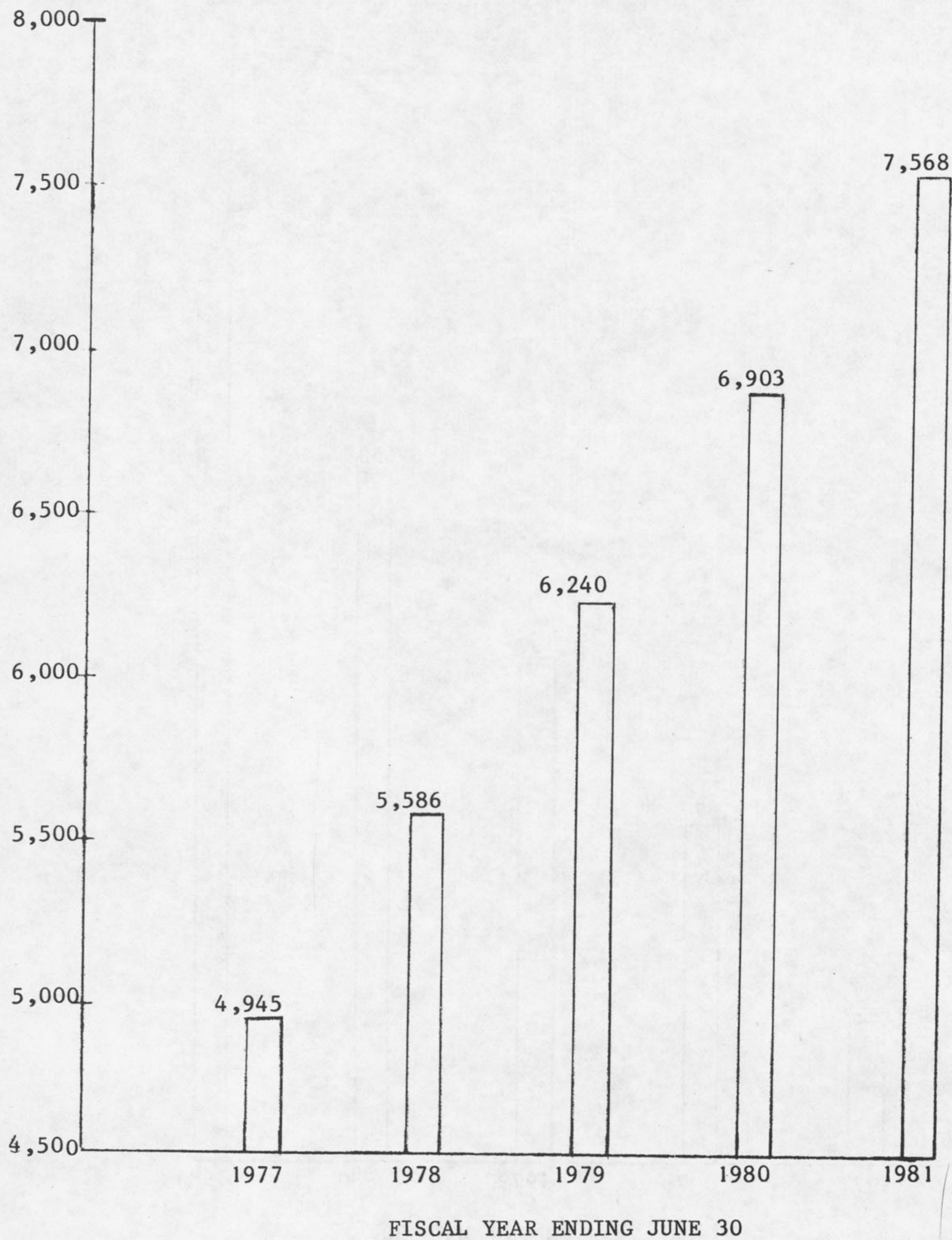
AS OF JUNE 30th OF THE
LAST 5 FISCAL YEARS



FEMALE RECIPIENTS ON PAYROLL

TABLE VIII

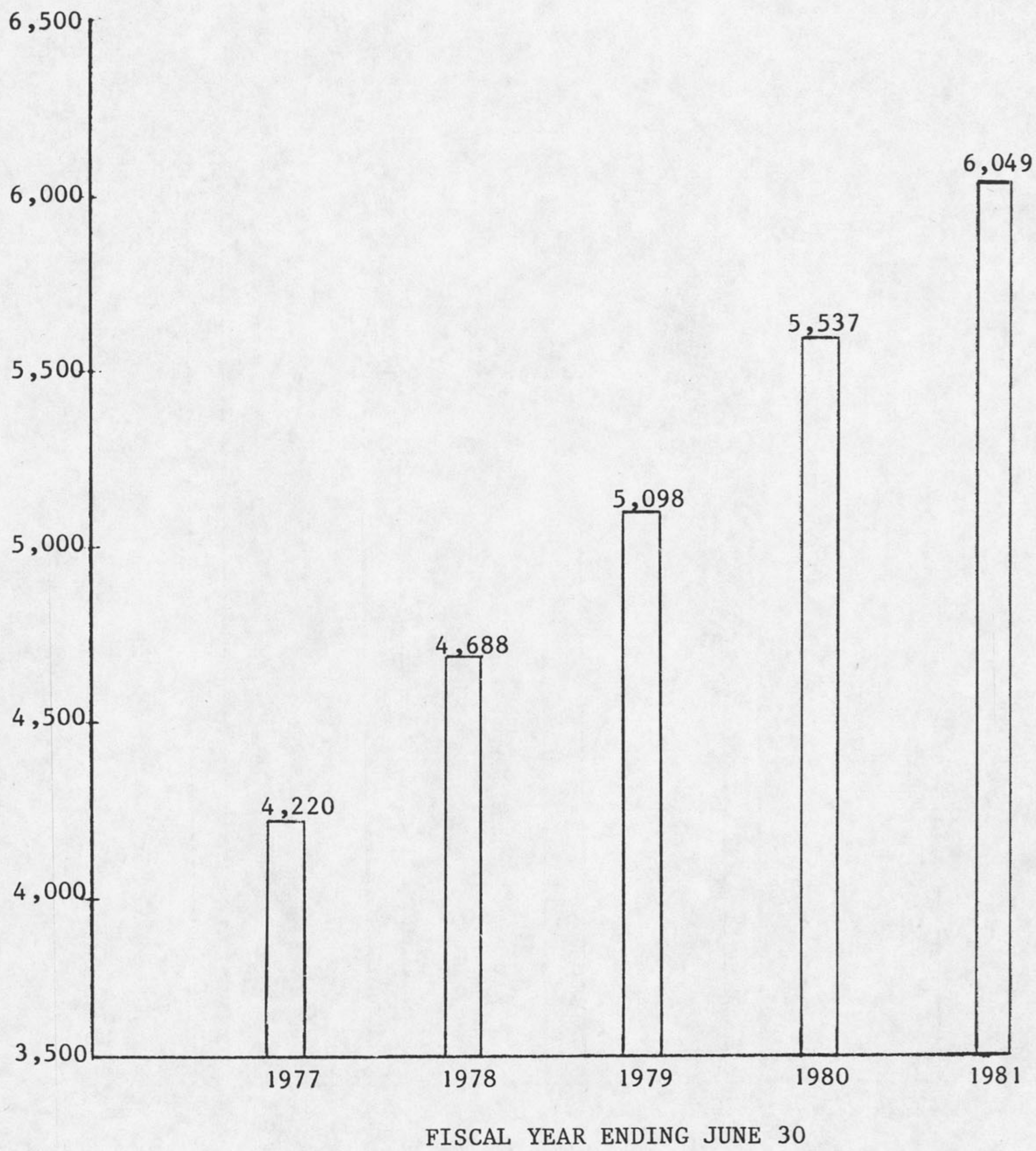
AS OF JUNE 30th OF THE
LAST 5 FISCAL YEARS



MALE SERVICE PENSIONERS ON PAYROLL

TABLE IX

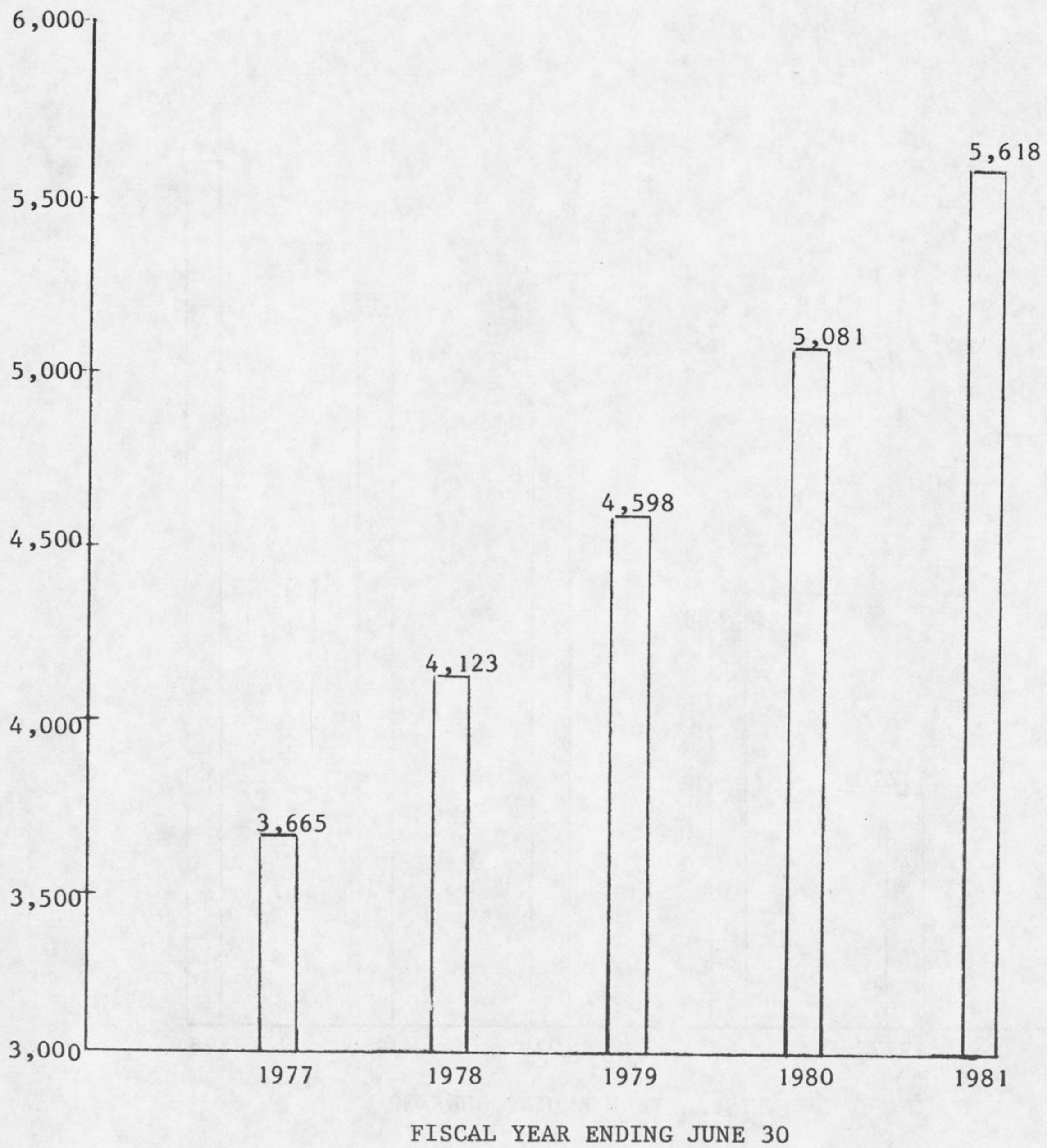
AS OF JUNE 30th OF THE
LAST 5 FISCAL YEARS



FEMALE SERVICE PENSIONERS ON PAYROLL

TABLE X

AS OF JUNE 30th OF THE
LAST 5 FISCAL YEARS

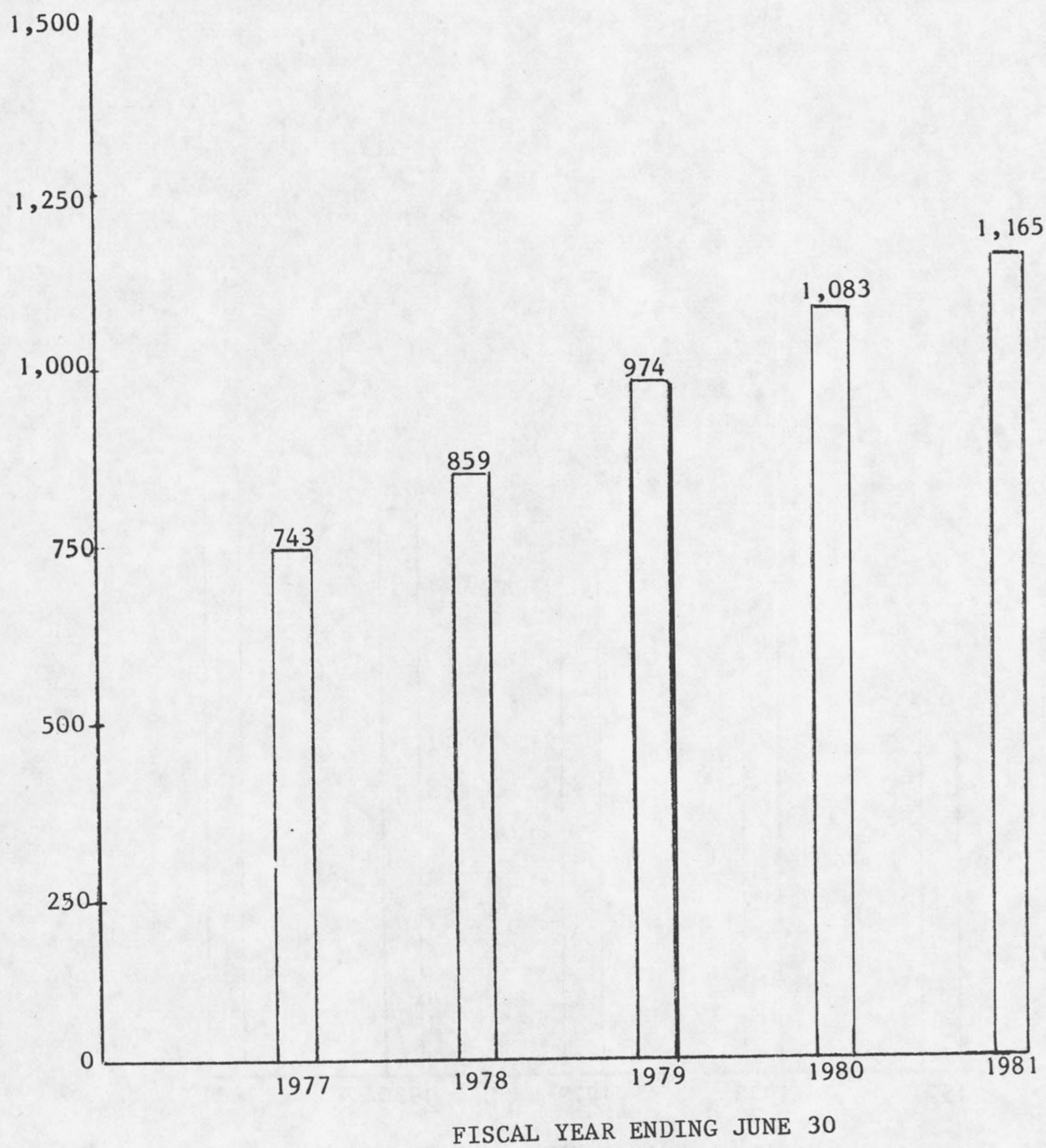


MALE DISABILITY PENSIONERS ON PAYROLL

TABLE XI

AS OF JUNE 30th OF THE

LAST 5 FISCAL YEARS

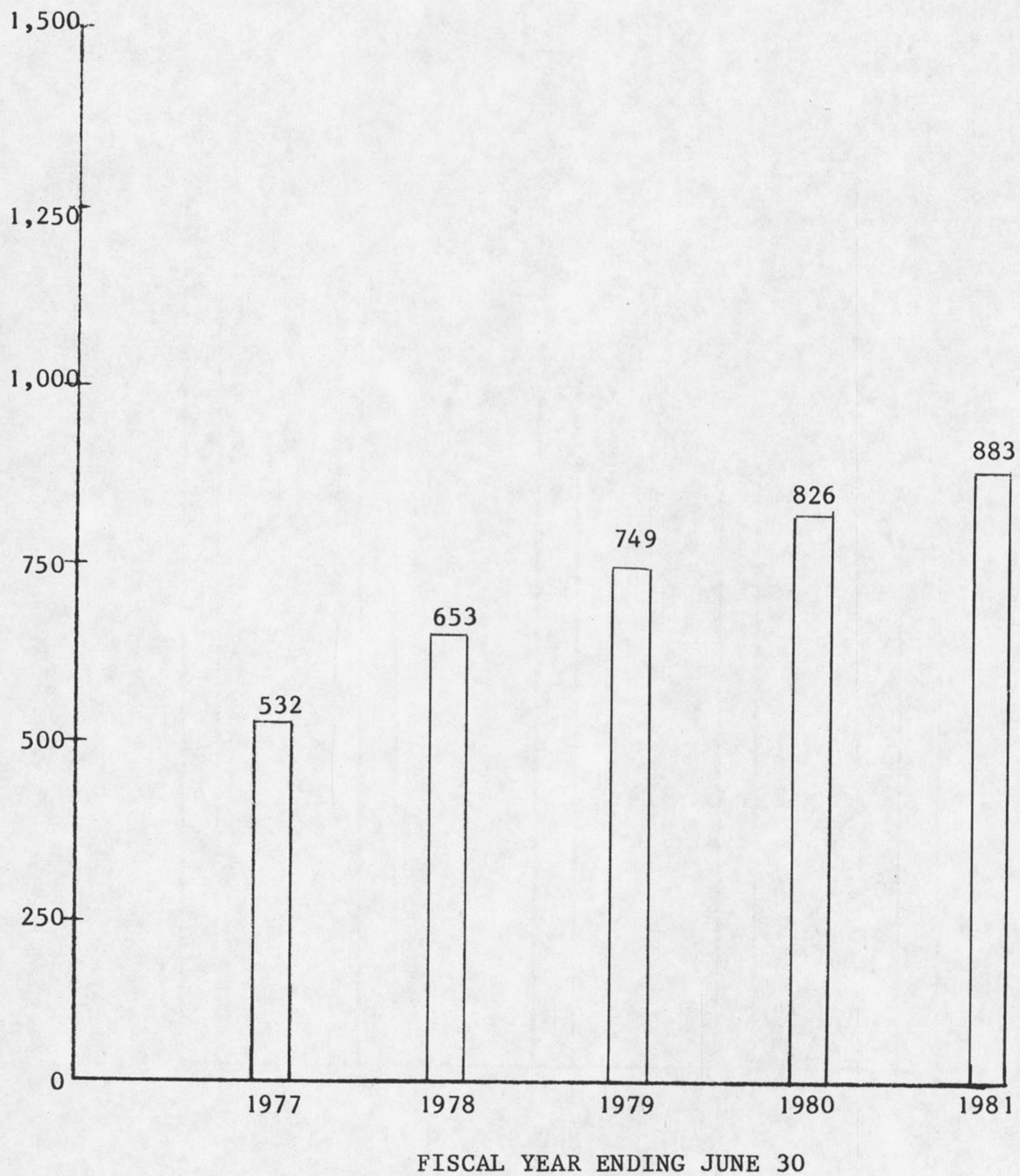


FEMALE DISABILITY PENSIONERS ON PAYROLL

TABLE XII

AS OF JUNE 30th OF THE

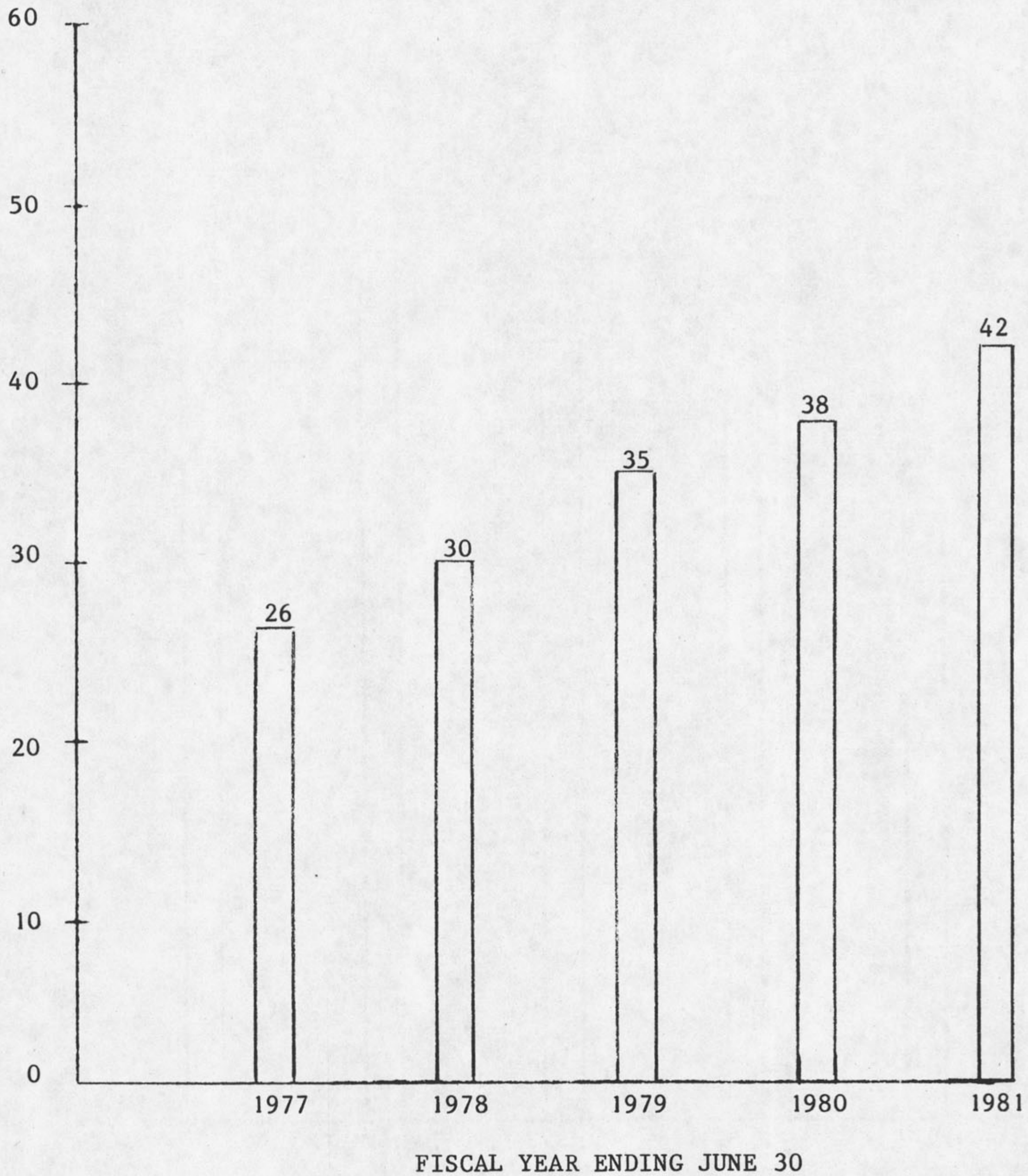
LAST 5 FISCAL YEARS



MALE BENEFICIARIES ON PAYROLL

TABLE XIII

AS OF JUNE 30th OF THE
LAST 5 FISCAL YEARS



FEMALE BENEFICIARIES ON PAYROLL

TABLE XIV

AS OF JUNE 30th OF THE

LAST 5 FISCAL YEARS

